

# **The Cal-Vet Program**

**A STUDY OF STATE-FINANCED  
HOUSING IN CALIFORNIA**

**by Edward L. Rada**

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# The Cal-Vet Program

A Study of State-Financed Housing in California

EDWARD L. RADA

*Publication of the*

REAL ESTATE RESEARCH PROGRAM

*Graduate School of Business Administration*

*Division of Research*

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## *Preface*

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This monograph presents the first comprehensive analysis of the largest state-financed home loan program in the nation, initiated in 1921 when the use of government funds for this purpose was highly unorthodox, and in continuous operation since that time. The significance of the California program to assist veterans in the purchase of homes or farms is illustrated by the fact that its size until recently exceeded the net amounts loaned directly by the Federal Government on veterans housing throughout the nation. It was only in early 1961 that loans outstanding under the Federal program approximated the nearly \$1.2 billion of the Cal-Vet program.

Whether or not one favors this kind of governmental activity, it clearly deserves greater attention in California and beyond. The State legislature has been faced with decisions to extend, expand, and revise the program. The voters have been called upon from time to time to approve the issuance of hundreds of millions of general obligation bonds by the State to finance the Cal-Vet operations. These decisions will become increasingly complex and difficult as other programs, notably for the development of water resources, make huge competing demands on the State's credit capacity. Yet, the record of the Cal-Vet activity is widely unknown and its implications are poorly understood.

At the same time, proposals have been made in the State legislature to apply the principles of the Cal-Vet program, which is now limited to eligible veterans, to other groups deemed to be at a disadvantage in the housing market, such as low-income families or the aged of moderate means. One such proposal was enacted in 1961 but is still subject to constitutional amendment by referendum. Also, numerous bills for government loans for certain types of housing, especially so-called middle-income housing, have been introduced in the Federal Congress. Consequently, an analysis of Cal-Vet operations has significance far beyond the future of the program itself.

Professor Rada's work highlights some of the knotty problems associated with any direct government lending program. To mention a few, how can one assess benefits and costs? What are the characteristics of veterans who have been assisted? Are they more "needy" than others? What kinds of homes do they buy? Is the fact that the program promises to be self-liquidating in an accounting sense sufficient evidence that it is costless to the State? What is the nature and size of the subsidy if any? Since home purchasers find Cal-Vet financing advantageous, and in view of the limited funds available, how have these funds been rationed? Professor Rada's description of the means employed to control the size of the program and of their changes over time offers much food for thought on this point, as does the record of shifting eligibility requirements.

In addition, the Cal-Vet program has introduced some noteworthy innovations of interest not only to the design of similar governmental lending operations but also to private mortgage lending institutions. As Professor Rada points out, one of these innovations is a flexible interest rate for all existing as well as for new contracts, adjusted to changes in the cost of money to the State. To soften the impact of rising interest rates on the veterans' monthly payments in the past few years, the loan maturities have been extended in such fashion that the amount of debt service remains about the same. The adoption of such a system by private lending institutions, subject if necessary to permissive legislation, deserves serious study. Among other things, this procedure may help solve one of the most troublesome problems in the operations of institutional mortgage lenders: the long-term lending of funds at an inflexible interest rate while the return on savings must be adjusted to current rates not only for new but for all accounts. On the other hand, extensions of loan maturities would create problems of their own. Another innovation highlighted by Professor Rada is the extensive insurance coverage provided under the Cal-Vet program at low cost.

The activities of the Cal-Vet program have had a marked influence not only on veterans who are its beneficiaries and on the State's credit and debt, but also on real-estate brokers, builders, and suppliers of private mortgage funds throughout the State. Professor Rada's study for the first time attempts to relate the program's operations to the entire mortgage and housing markets in the State. It provides materials which, it is hoped, will be useful in shaping the future of the program under ever changing conditions.

The publication of this monograph is perhaps a good occasion to restate the role of research in dealing with policy issues which are always "controversial." Fundamental research, the type of scholarly work which universities are especially equipped to undertake, does not mean the assiduous avoidance of public issues. On the contrary, if university research

failed to address itself to policy problems it would shirk one of its main responsibilities to our society, for the higher institutions of learning are among the few organizations which can provide an objective and detached analysis of such problems. Statements on policy implications, however, must be confined to legitimate conclusions derived from analysis. In this fashion, research can develop facts and findings that reduce the area of controversy, raise the level of public discussion, point up alternative solutions to given problems, and help improve the quality of policy decisions.

It is hoped that Professor Rada's study will make a contribution to attaining these objectives.

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## *Acknowledgments*

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This monograph owes its origin to a discussion with a nationally known author of an investment text who was not aware of the Cal-Vet program as a source of a substantial volume of mortgage funds in California. Further investigation revealed that the literature was virtually bare of references to the program.

James M. Gillies of the Real Estate Research Program at the University of California, Los Angeles, encouraged me to submit a study proposal which was approved for financial assistance by the Program. Many thanks are due Leo Grebler for his painstaking reviews, suggestions, encouragement, and critique. John C. Clendenin and Robert M. Williams reviewed the manuscript and their comments are deeply appreciated. Thanks are due also to the Faculty Research Committee at UCLA for financial aid that accelerated certain prolonged statistical computations.

California's Department of Veterans Affairs was most accommodating in providing information and access to its records. Special thanks are due H. J. Johnson, Manager of the Division of Farm and Home Purchases, and his predecessor J. Marvin Russell, and their assistants, for a careful review of the material for factual accuracy.

A lengthy work of this kind requires much staff assistance that often goes unheralded. I wish to gratefully acknowledge the research assistance of Jay Berger, the contributions of Frank Mittelbach, the electronic machine computations performed at UCLA's Western Data Processing Center by Nels Hakaanson and Stuart Hackel, and the secretarial work of Joyce Shields, Karen Carrington, and Rose Altman.

All individuals mentioned should be absolved of the defects in this monograph; any tributes are theirs to share.

EDWARD L. RADA



## *Summary and Conclusions*

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1. In 39 years, Cal-Vet, the largest State-financed home and farm loan program in the nation, has loaned nearly \$1.5 billion to more than 164,000 California veterans, or about 12 percent of those eligible. More than 98 percent of the loans were made on homes. More than half of the home loans outstanding in mid-1960 were made after 1956, when lending terms were generously liberalized. Liberalization was followed by various efforts to ration the limited funds.

2. The State of California has invested about \$1.4 billion of general obligation bonds in this self-liquidating program. It is estimated that more than half of the funds have been drawn from out-of-state sources, which has helped to reduce mortgage interest costs in California. The \$1.1 billion of Cal-Vet debt outstanding in mid-1960 was nearly 60 percent of the State's total debt. The State's debt was increasing more rapidly than its personal income or value of taxable property.

3. There is reason to believe that, on balance, the huge volume of Cal-Vet bond financing, especially since 1956, has raised net bond interest costs to all public borrowers in the State. The subsidy benefits to relatively few veterans have been at the expense of many taxpayers. Voters, however, have continued to approve Cal-Vet bond issues at the polls.

4. Cal-Vet has operated the program on a break-even pricing basis, with the intent neither to make nor to lose money for the State. Its earned surplus, for emergency purposes, amounts to more than \$20 million which is reinvested in the loan program. The surplus has been diminishing relative to loans outstanding. This trend reflects lower operating margins between income and expenses. A larger surplus might be earmarked for compensatory payments to the State for the use of its credit; if so, a specific surplus ratio would need to be prescribed.

5. Cal-Vet accounts for only about 4 percent of the total annual residential sales and mortgage activity in the State. Though smaller, it supple-

ments and complements the federal VA home-loan program in California which favors tract home building and sales. Cal-Vet lending operations have been more stable than those under the VA program and have provided more financial aid to buyers of existing homes. More veterans in California have obtained greater home financing assistance than have veterans in other states.

6. On the basis of prevailing charges of private mortgage lenders, the Cal-Vet interest-rate subsidy amounts to about 2 percentage points. The immediate value of the subsidy on a \$12,800 home loan, the average in 1959, would be about \$2,000 for a 20-year term and about \$1,100 for a 10-year term. Most loans are written with 20-year maturities but, on the average, are paid off or retired in less than 10 years.

7. In general, the program favors the upper middle-income veterans with substantial down payments, a rather select group of the population. In earlier years, the intent was to serve the veterans with limited assets and in need of housing. Progressively more liberal lending terms have increased the subsidy for those veterans who were able to obtain Cal-Vet financing; the amount loaned has increased more rapidly than the number of loans. Some of the saving in interest costs has been used for the purchase of better quality homes. Very little of the Cal-Vet investment in recent years has enhanced the productivity, through better housing, of veterans living in crowded and unhealthy conditions. Cal-Vet has not adopted policies designed to tailor loans to the needs and payment capacities of veterans. The question remains: Should a public program supply and subsidize services to a limited group that could be largely served by the private market?

8. A reappraisal of the program's purposes, its contributions, and its position in the priority scale of State and local investment programs would appear to be in order. Termination of the program would probably create strong demands for a costly cash bonus to veterans who have not obtained a Cal-Vet loan. Alternative means of public financing, such as revenue bonds, would continue to impinge on the State's credit rating and costs, though perhaps to a lesser degree. State insurance or guarantee of private loans would be the least costly to the State unless an interest-rate subsidy were necessary. Still another alternative would be to continue financing the program by general obligation bonds but to limit eligibility on the basis of strict "need" tests and thus restrain the use of public funds. This solution would appear to be the most acceptable compromise between economic and political considerations.

## *Chapter I*

---

### INTRODUCTION

The State of California has provided direct government loans to qualified military-service veterans for the purchase of farms and homes since 1921. The program is commonly referred to as the Cal-Vet Farm and Home Purchase Program. It is one of several veterans' benefits provided by the State in lieu of a cash bonus, which a number of other states have employed to reward their war veterans.<sup>1</sup> It was one of the earliest programs in the nation to employ public funds for housing,<sup>2</sup> and evolved from unsuccessful legislative attempts to provide State loans for low-income housing. The Cal-Vet housing program was unique at its inception and after nearly 40 years remains unique as the largest state-sponsored veterans'-aid program. In 1958, only six states were making some type of housing loans to their war veterans, but none matched the California program in size, scope, and duration.<sup>3</sup>

In mid-1960, the Cal-Vet Farm and Home Purchase Program was the second largest home financing operation in the State of California and one of the ten largest in the nation. Cal-Vet had 111,499 contracts in force and in process at that time, representing a current investment of more than \$1 billion dollars. More than 164,000 loan contracts, representing real estate investments of nearly 1.5 billion dollars were written between 1921 and 1960.<sup>4</sup>

New York State's public investment in housing is somewhat smaller than California's. The State of New York had approximately \$625,000,000 outstanding invested in its two State-supported housing programs in mid-1959 (\$608 million in public housing and \$17 million in the middle-income, limited-profit program).<sup>5</sup>

The leading lender in California residential real estate was the Bank of America which reported a total of slightly more than \$2.5 billion in outstanding realty loans at the end of 1959, of which nearly 85 percent represented loans on single-family dwellings.<sup>6</sup> The Metropolitan Life Insurance Company had the largest residential mortgage investment in

California among life insurance companies—a total of \$620,849,000 on December 31, 1959.<sup>7</sup> Home Savings and Loan Association of Los Angeles was the largest mortgage investor among savings and loan institutions, with \$619,096,979 outstanding on California residential real estate on December 31, 1959.<sup>8</sup>

Nationally, only a few banks and life insurance companies exceed the Cal-Vet program in the volume of residential real estate loans outstanding. The direct home-loan program of the Veterans Administration, begun in 1950, was rapidly nearing the volume of the Cal-Vet program by 1959. VA direct loans outstanding at the end of 1959 amounted to \$888,554,000.<sup>9</sup>

By mid-1960, California voters had authorized the sale of \$1,835,000,000 general obligation bonds to finance the Cal-Vet program. Of the \$1,385,000,000 authorized bonds sold, \$1,120,900,000 were outstanding and accounted for nearly 60 percent of the State's general obligation debt. As might be expected, the program has had an impact on the State's credit rating and costs of financing.

The Cal-Vet program pioneered a number of special features in the home-loan field. One of its major contributions was to demonstrate the feasibility of the monthly amortization method of home buying on a long-term basis, at a time when this method was far from being generally accepted.<sup>10</sup> The success of this feature helped change the portfolio structure of private lending institutions from short-term, single-payment loans to long-term amortized home loans. The Cal-Vet program provided valuable income-expense ratios and techniques for the Federal home-loan insurance program and later the Veterans Administration's home-loan-guarantee and direct-lending programs. In the course of time, other innovations were introduced into Cal-Vet home loan contracts such as life and disability insurance, a variable interest rate, and open-end maintenance and repair financing.

The Cal-Vet home-loan program recently has been used as a possible model in proposals for additional housing legislation. Thus, some of the papers presented to a United States Senate Committee in late 1958, dealing with the subject of home mortgage credit, suggested the application of some of the Cal-Vet direct-lending provisions to new Federal housing programs.<sup>11</sup> A bill was passed by the California Legislature in 1961 seeking State financial aid for the housing of California's elderly and recommending the adoption of many basic Cal-Vet financing provisions.<sup>12</sup>

Because of the scope of the Cal-Vet program, its historical contributions to home-financing practices, the suggestions for using public funds for other housing programs, and the scarcity of information about the program in housing and finance literature, an economic study of the California Veterans Farm and Home Purchase Program seems warranted.

## Nature of the Program

Legislative stipulations and implementive administrative actions have restricted Cal-Vet benefits to certain veterans and to certain types of properties. Only active-duty veterans of World War I, World War II, and the Korean conflict are eligible for a Cal-Vet loan. Furthermore, only native born veterans and those entering the service as California residents are eligible. Such qualifying requirements clearly define the maximum number of veterans eligible to participate in the program. Of some 1,600,000 veterans who were eligible at one time or another, about 1,400,000 remained eligible as of July 1, 1958.

The legislature confined the dimensions of the program further by establishing certain financial terms and property requirements as criteria for eligibility. For example, in 1960, a veteran could not obtain a Cal-Vet loan to buy a home appraised at more than \$25,000, while the Department of Veterans Affairs, described below, could not invest more than \$15,000 in a home and \$40,000 in a farm. Title to each property was to remain with the State until the contract was fully paid. Furthermore, only single-family dwellings to be used as the veteran's residence and farms considered to be an economic unit are eligible for purchase. Originally, only existing dwellings were eligible for purchase. A conditional commitment plan for the acquisition of a new custom-built home was introduced in 1934 and a progress payment plan for new houses was adopted in 1949.

A more general but effective limitation of the program's size is the public control of Cal-Vet's quantity of loanable funds. More than 90 percent of Cal-Vet's loanable funds have been obtained from the sale of general obligation bonds. In some years, however, Cal-Vet acquires as much as 20 percent of its loan monies from internal sources, such as interest income, advance payments of contracts, and life insurance proceeds.

The general obligation bonds, backed by the full-faith-and-credit of the State, are serial bonds with maturities ranging from 1 to 25 years. Bonds are sold as needed on a sealed-bid basis; the bid price is the interest rate asked of the State. Bond financing requires both legislative and voter approval before bonds may be sold. This public control, together with maximum loan limits, largely determines the rate at which eligible veterans can make use of the program.

The average interest rate paid for bond amounts outstanding is the major cost component of the program and is the principal determinant of the rate of interest charged home and farm purchasers. The rate of interest charged borrowers started at 5 percent in 1921 and was reduced to a low of 3 percent immediately after World War II. In early 1961, the prevailing rate was 4 percent per annum. The average interest rate charged borrowers is generally sufficiently high to cover costs and to yield

a surplus. The legislative intent is that the program be operated at neither a loss nor a profit to the State. Cal-Vet's management has had little difficulty over the years in fulfilling this mandate.

The management of the program is vested in the Department of Veterans Affairs, a public corporation. It is comprised of four divisions, one of which is the Division of Farm and Home Purchases that manages the Cal-Vet program. The director of the Department is appointed by the Governor as is each of the seven members of the Veterans Welfare Board, the policy-making body. All of the farm and home purchase negotiations with veterans are handled through 17 Statewide district offices. The central office in Sacramento closes all escrows, issues all monthly payment statements, receives all payments and charges, and maintains all contract records, current and historical. Operating personnel are State civil service employees.

### Scope of the Study

For several reasons, this study is mainly concerned with the home purchase portion of the Cal-Vet program. First, farm loans constitute a minor part of the program. Of a total of 156,022 loans made through 1959, only 2,086 were for farm purchases. In dollar terms, only \$26 million, or approximately 2 percent of Cal-Vet's total volume, were invested in farm real estate, and the percentage has been declining. Second, the credit standards and criteria determining eligible farm and home properties differ considerably. Third, there are major differences between the institutions supplying farm credit and residential mortgage credit. However, not all Cal-Vet statistical reports used in this study separate farm and home loans. The data presented herein will indicate whether home and farm statistics are treated together or separately.

### Objectives and Organization of the Study

The purposes of this study are:

- (1) to describe the important features of the program and to highlight the significant changes that have helped mold its character;
- (2) to analyze the program in terms of its economic significance to veterans, to the State, and to alternative home financing facilities;
- (3) to evaluate its performance with respect to the persons served and the properties purchased.

The results of the study are presented in six sections. The next chapter discusses the growth of the program in terms of number and dollar volume of loans, the number of veterans eligible, eligibility requirements of veterans and properties, interest and other charges to veterans, and the general administration of the program. Thereafter, the study delves into the financial management of Cal-Vet's operations: its revenues and ex-

penses, break-even pricing problems, and the difficulties encountered in rationing loanable funds. The third section deals with one of the more controversial aspects of the program: bond financing and its significance to veterans and to the State. Consideration is given to the factors determining bond financing costs, and to the effect of Cal-Vet bond financing on the State's credit rating and the cost of borrowing by the State and its other public bodies. The fourth section is concerned with the contribution of the Cal-Vet's program to the State's supply of housing and mortgage funds, and with the comparative advantages and disadvantages of the program for California veterans relative to alternative sources of financing, notably home loans guaranteed by the Veterans Administration. The fifth section analyzes various characteristics of Cal-Vet borrowers, homes purchased, and loans used. Most of the statistics analyzed are from samples of contracts written during the 1956-59 period. To the extent possible, these are compared with data on FHA-insured loans in California covering the same period. The sixth and final section summarizes the benefits and costs of the program to California veterans and to the State.

### Sources of Data

Nearly all of the Cal-Vet data presented in this study were obtained from the records of the Division of Farm and Home Purchases of the Department of Veterans Affairs, State of California. The statistics revealing the characteristics of individuals and properties participating in the Cal-Vet program were analyzed on the computing machines of the Western Data Processing Center at the University of California, Los Angeles.

A good deal of the early history of the Cal-Vet program was obtained from Dorothy Schaffter's book, *State Housing Agencies*, legislative hearings, and communications dealing with the program. Much of the VA- and FHA-California data were obtained from the national offices of these two agencies and their published reports. Supplemental information was taken from Bureau of Census decennial statistics and from the literature on governmental housing programs and related matters.

Information on bond financing came largely from four sources: (1) State Departments of Veterans Affairs, Treasurer, and Controller, (2) *The Wall Street Journal* and *The Bond Buyer*, (3) Moody's Investors Service, and (4) the municipal bond house of R. H. Moulton and Company in Los Angeles.

## *Chapter II*

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### THE CAL-VET HOME LOAN PROGRAM

This section highlights four aspects of the Cal-Vet program: (1) the magnitude and growth of the program; (2) the eligibility of veterans and properties; (3) the costs and charges to veterans; and (4) the administration of the program. In the main the analysis refers to the program in effect in 1958–60. Important differences in the earlier and later phases of the program are also noted.\*

A detailed summary of the program in effect as of August 1958 is presented in Appendix A. The significant changes affecting the eligibility of veterans and the administration of the program since 1921 appear chronologically in Appendix B. The financial terms prescribed for Cal-Vet loans by the State Legislature and the Department of Veterans Affairs are detailed in chronological sequence in Appendix C.

#### HISTORY OF THE PROGRAM

The Cal-Vet program, a post-World War I product, came into existence as the result of two unrelated pressures prevailing in the 1921 State Legislature. One was the demand by veterans' organizations for the State to reward its returning World War I veterans. The other was the demand of welfare-minded groups for the State to aid in the construction of more and better family housing. The 1921 Legislature defeated a bill calling for State-financed housing for urban, low-income families, but accepted this defeated measure almost intact for California veterans.<sup>2</sup> Provisions for farm purchases were added to those for home purchases and the two were joined for administrative purposes to the experimental Land Settlement Act passed in 1917. The latter provided for State acquisition of raw land for subdivision into farm and home sites and resale to enterprising settlers.

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\* The reader's attention is called to some important 1961 changes in policy, as recorded in Appendices B and C, that alter long-standing practices. The most noteworthy is the change in loan amortization policy, which does not nullify but amends certain statements in the text of this section.

This phase of the Cal-Vet program lost public interest and was never executed; the Legislature terminated it officially in 1957.

The entire program was on trial in the early years. It met with skepticism and opposition of financial groups, and its constitutionality was tested several times in the State courts. The program survived all challenges in the Supreme Court except one (*Veterans Welfare Board vs. Jordan*, 189 California, 124). The central question in this case was whether or not the program violated the Constitutional clause prohibiting the creation of State debt for private purposes. In June 1922, the Court ruled that private gain was a minor and incidental aspect of the Land Settlement program but was the chief consequence of the Farm and Home Purchase program. The Supreme Court held the latter to be unconstitutional. The legality of both programs, however, was established through voter approval of a Constitutional amendment in the Statewide elections of November 1922. The legislative and administrative history of the program from that period to about 1940 has been documented in detail by Schaffter and need not be repeated here.<sup>8</sup>

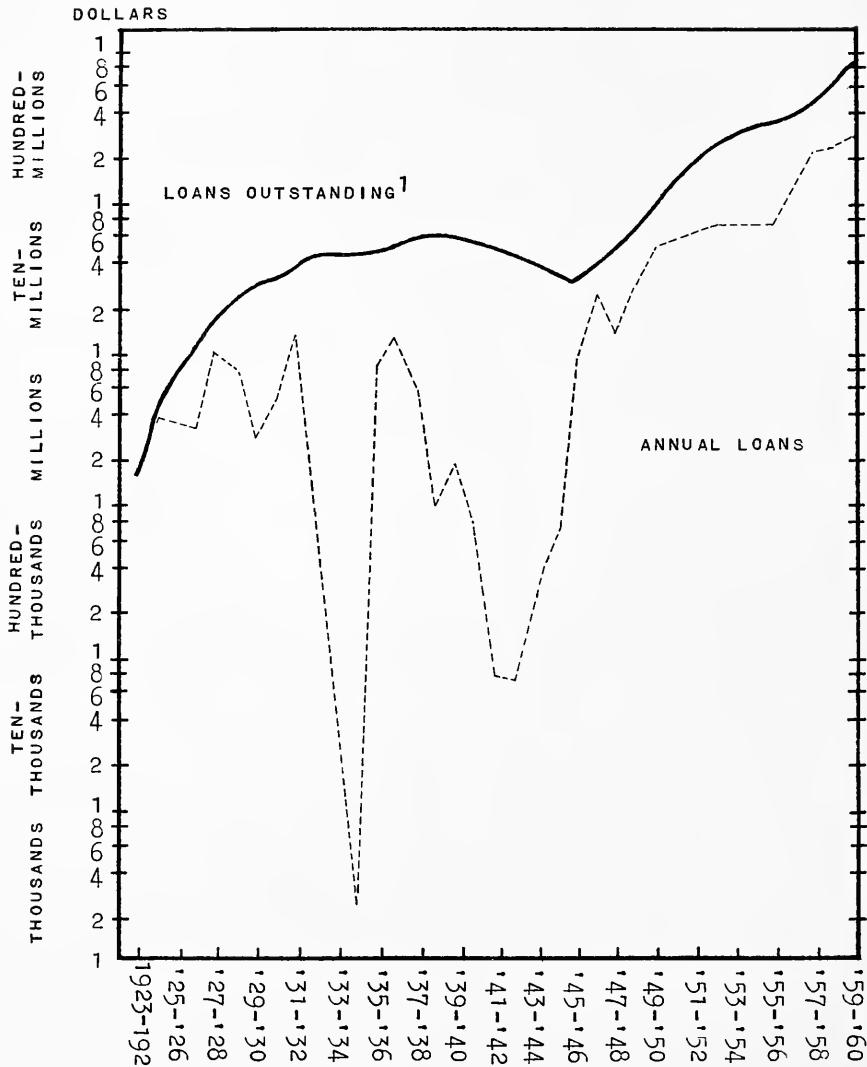
Once the program survived these tests, it developed sufficient stability to cope with the defaults and foreclosures of the 1930's and the inactivity during World War II. The history of the program between the end of the World War II and 1960 is mainly one of adjustments to an enlarged demand due to (a) the increased number of eligible veterans, (b) higher incomes, (c) inflation and rising home building costs, (d) liberalized Cal-Vet benefits, and (e) the relative scarcity of loanable funds due largely to the increased competition among public agencies for investment capital.

#### GROWTH AND MAGNITUDE

The growth of the Cal-Vet program (farms and homes) from a small experimental program to a large-scale business operation is shown in Chart 1, and in Appendix D, Tables D-1 and D-2. The major growth occurred after World War II, and especially after 1950. Of the total 1.1 billion dollars in loans made, more than 70 percent originated between 1950 and 1960, a period in which the dollar volume of new loans increased more rapidly than their number. The average size of loan increased from about \$7,000 in 1950-51 to \$13,300 in 1959-60.

Chart 1 indicates that the program did not grow steadily from year to year prior to 1950. Sharp declines in new purchases occurred during the depression of the 1930's and during World War II. The fluctuations in purchases prior to 1930 were due largely to the method used in financing the program. In those years, and until 1945, new funds were not made available until all previously approved funds had been expended. Consequently, a number of months elapsed before new funds were obtained from bond sales which required prior legislative and voter approval.

CHART 1  
CAL-VET DOLLAR VOLUME OF  
ANNUAL LOANS AND LOANS OUTSTANDING,  
1923-1960



<sup>1</sup> LOANS OUTSTANDING ON JANUARY 1 OF EACH FISCAL YEAR.

SOURCE: APPENDIX D, TABLE D-2

The downward trend of loans outstanding from a high of \$62,825.894 on June 30, 1938 to the low of \$30,112,091 on June 30, 1945 was due chiefly to the decreasing number of World War I veterans eligible for and interested in the program. The demands for loans by veterans of World War II and the Korean conflict, coupled with rising loan limits, reversed the downward trend. Loans outstanding increased from \$121,262,445 on June 30, 1950 to \$1,061,056,777 on June 30, 1960.

Home construction loans, begun in 1949, have fluctuated widely from \$7.6 million in 1950-51 to a low of \$2.7 million in 1955-56 and a high of \$17.0 million in 1958-59. In 1958-59, home construction accounted for about 7 percent of the loan volume. Farm loans (Appendix D, Table D-4) have varied more than home loans, and amounted to less than 2.5 percent of the total loan volume at their highest level in 1957 (271 farm loans of \$5.7 million). Farm loans, too, have been affected by depression and war but chiefly by low maximum loan limits in periods of rapidly rising land values and larger-sized farms.

#### HOME ACQUISITION PROCEDURES

There are a number of methods by which an eligible veteran may acquire a home through the Cal-Vet program. The normal method is for a veteran to select a home, agree on the price with the seller, make a deposit, file an application for purchase with Cal-Vet and let Cal-Vet complete the transaction. Cal-Vet acquires the veteran's agreement to purchase and the title to the property. It resells the property to the veteran on a contract of purchase, with the legal title passing to the veteran when the contract is fully paid. The veteran may file an application for priority to purchase first and select a home later, take title, and sell it to and repurchase it from Cal-Vet at some future date. By virtue of the refinancing restriction of 1958 (to be discussed more fully later), Cal-Vet was prohibited from acquiring a property in which the veteran had acquired an interest of record. Because of the refinancing ban and the backlog of applications, Cal-Vet instituted a loan commitment plan in May 1960, permitting a veteran to acquire interim financing of record while his application for purchase was pending. The economic consequences of this plan are discussed more fully in Chapter V.

If a veteran wishes to build a home under a conditional commitment agreement, he must buy the lot and arrange for interim construction financing. On completion of construction, Cal-Vet buys the property from the veteran and resells it to him. If a progress payment plan is used, Cal-Vet takes title to the property at the outset and resells it on contract to the veteran on completion of construction. Participation in the program, however, is restricted to those meeting personal and property eligibility requirements.

## Eligibility

The requirements for eligibility of persons and properties are prescribed fairly precisely by the State Legislature as documented in the California Military and Veterans' Code. The law reflects the fact that it is easier to establish eligibility standards for persons than for residential properties.

### ELIGIBILITY OF PERSONS

Personal eligibility is established in two ways: (1) by qualifying as a veteran; and, (2) by qualifying financially.

*War-service eligibility.*—It may be noted in Appendix A that the initial buyer or borrower must be a California veteran whose active duty falls within certain specified time periods. A veteran's widow may qualify under certain conditions and, in some cases, a non-California veteran may be assigned property originally purchased by a California veteran. The 1921 Act provided that a wounded or disabled war veteran was entitled to first consideration for the acquisition of a home or farm. This provision was most effective, and also troublesome, when rationing of funds was deemed necessary.

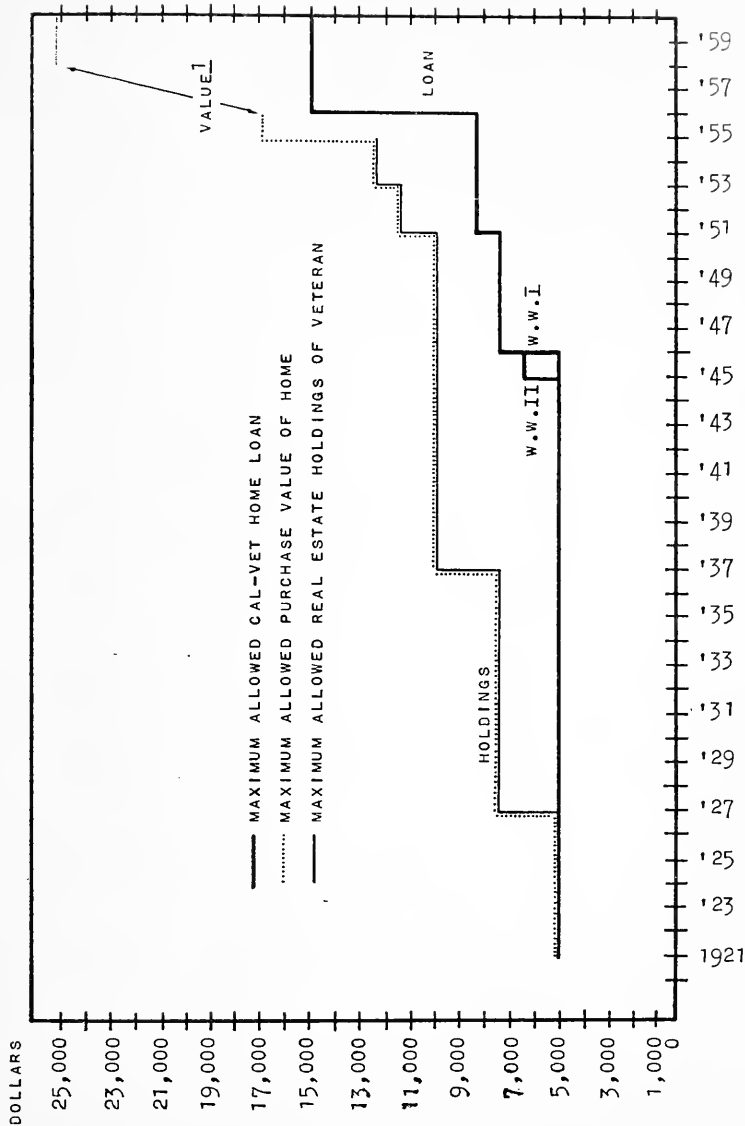
With certain exceptions, each qualifying veteran is eligible for one loan entitlement. Those veterans serving in two or more conflicts (World War I, II, and Korean) are eligible for an entitlement for each conflict but may use only one at a time. Also, under certain emergency conditions a veteran may transfer his eligibility to another property, restore his eligibility, or obtain a larger loan.

*Financial eligibility.*—Financial qualifications of eligibility have varied from time to time in their exactness and liberality. The original law (Appendix B) restricted a veteran's eligibility to only one type of veteran's benefit. If the veteran accepted educational assistance, for example, he forfeited his home or farm purchase eligibility. This type of restriction was abolished in 1937. However, a person receiving veterans' benefits from another state is barred from California veterans' benefits.

Appendices B and C show certain other financial eligibility limitations and their liberalization over time. For example, at the outset no user of the benefits could own real estate whose total value exceeded \$5,000 if buying a home (or \$7,500 if buying a farm), which total value included the value of the property to be purchased. The value limitations for real estate holdings were first increased in 1927 (see Chart 2) and again in 1937, 1951, and 1953; and in 1955 they were abolished completely, largely because of the inequities involved. A veteran holding cash or stocks, for example, was not restricted, and a veteran with extensive real estate holdings might transfer title to his spouse in order to qualify for a loan.

The size of the loan granted in relation to the maximum value of the

CHART 2  
MAXIMUM FINANCIAL LIMITS ALLOWED CAL-VET HOME BUYERS, 1921-1960



1 VALUE LIMITS WERE NOT IN EFFECT FROM 1956 TO MID-1958.

SOURCE- APPENDIX C.

property allowed to be purchased (statutory loan-to-value ratio) has been a factor in determining participation in the program. From 1921 to 1927 the statutory maximum size of loan and the statutory maximum value of property eligible for purchase were the same: \$5,000. From 1927 until 1937, the maximum statutory loan-to-value ratio was 66.6 percent (Table 1), as may be computed from Chart 2. From 1937 until 1945, the statutory ratio dropped to 50 percent. Actually, after 1927, only veterans with substantial down payments were eligible to buy the maximum-value homes

TABLE 1  
RATIO OF STATUTORY MAXIMUM HOME LOAN TO STATUTORY  
MAXIMUM HOME PURCHASE VALUE,<sup>1</sup> 1921-1960

Period	Percent
1921-1927.....	100
1927-1937.....	66
1937-1945.....	50
1945-1946.....	65
1946-1951.....	75
1951-1953.....	74
1953-1955.....	68
1955-1956.....	50
1956-1958.....	n.a. <sup>2</sup>
1958-.....	60

<sup>1</sup> The statutory maximum home purchase value is Cal-Vet's appraised value.

<sup>2</sup> No maximum home purchase value in 1956 to mid-1958.

SOURCE: Appendix C.

allowed by law. Veterans with low down payments were restricted to homes priced substantially below the maximum value accepted by Cal-Vet. The real question, however, is what effect did these legislated maximum loan-to-value ratios have on actual purchases? This decisive question will be examined in Chapter VI.

The original law (Appendix C) required a veteran to make an initial payment of at least 5 percent of Cal-Vet's appraised value. From 1949 to 1957, a 5 percent initial payment was required only if the appraised value of the home did not exceed Cal-Vet's loan by at least 10 percent. The 10 percent differential was reduced to 5 percent in 1957. For administrative reasons, Cal-Vet discontinued collecting the initial payment in 1957 because in most cases the value-loan differential was equal to or greater than the required initial payment.

The "needs" test commonly used in a welfare program to determine eligibility is not applied in the Cal-Vet program except in cases where a veteran under contract (a) loses possession of his home for reasons beyond his control, or (b) requests additional funds for repairs or improvements.

Such additional funds are granted for emergency reasons only (major repairs, an addition to properly house a larger family, and so forth), but not for swimming pools, patios, or frills.

#### ELIGIBILITY OF PROPERTIES

The Legislature controls eligibility of properties by prescribing the (a) type of property eligible for purchase, and (b) the maximum allowable purchase price of eligible types. Within these criteria, Cal-Vet determines the acceptability of specific properties.

The law allows the purchase of single-family dwellings only. Inasmuch as the State retains title to the property, the dwelling and the land must be detached from other ownerships of the fee. Potential income properties such as duplexes or triplexes are not eligible, nor are dwellings with "guest" houses or businesses. Hence, the program does not meet the housing needs of those veterans who desire something other than a detached single-family dwelling. The maximum allowable purchase price of a single-family dwelling unit, which was increased a number of times from \$5,000 in 1921 to a home appraised at no more than \$25,000 in 1958 (Chart 2), establishes the outer limit of eligibility.

Within these limits, Cal-Vet has utilized standard appraisal procedures to determine the acceptability and valuation of properties. The Federal Housing Administration's Minimum Property Standards<sup>4</sup> are employed by Cal-Vet throughout the State. Until 1960, two appraisals were required: one by Cal-Vet and the other by an independent appraiser familiar with values in the area. The latter has been dropped, except in cases where the loan request is more than 90 percent of Cal-Vet's appraised value of the property.

Originally, only existing dwellings were eligible for purchase. In 1934, the conditional commitment contract was introduced. This plan assures a veteran prior to construction of a home of its eventual purchase by the State. The progress payment plan, which was introduced in 1949, provides for prior Cal-Vet approval before construction is commenced and for five payments during construction by Cal-Vet to the builder. Homes requiring minor structural repairs or additions may be accepted for purchase after the work is completed. All capital improvements to a Cal-Vet home, whether or not financed by Cal-Vet, require prior approval and usually periodic checks of the work in progress.

Cal-Vet places considerable stress on the suitability of a property to a veteran's needs, his ability to pay for it, and on its resalability. Since in most cases a loan can be used only once, adequacy of the home, especially for a young veteran, is an important criterion of its eligibility for purchase. Because of the rapid growth of the program in recent years, Cal-Vet no longer gives the same degree of attention to each buyer's needs

as in earlier years. Also, operating statistics show that many veterans occupy a Cal-Vet home for only a short period of time, which tends to weaken the adequacy standard.

On the other hand, Cal-Vet does not allow, without special permission, the encumbering, assigning or renting of the property. These restrictions may reduce the salability and value of a property and imperil Cal-Vet's investment in case of default. Cal-Vet, therefore, must and does purchase properties with care in order to avoid reposessions and program insolvency. It refuses many properties offered to it for purchase; about 10 percent in 1958. In conclusion, a veteran may be eligible but a property may not.

TABLE 2  
ESTIMATED POPULATION OF VETERANS ENTERING SERVICE FROM AND  
RESIDING IN CALIFORNIA, 1953 AND 1958

Military Service	December 31, 1953	July 15, 1958
Korean.....	130,000	250,000
World War II.....	1,050,000	1,035,000
Other Wars.....	130,000	115,000
Total.....	1,310,000	1,400,000

Sources: 1953 data "California's Growing Veteran Population," Department of Veterans' Affairs, State of California, Sacramento, December 31, 1953, p. 2; 1958 data, Appendix E.

#### THE NUMBER AND PARTICIPATION OF ELIGIBLE VETERANS

Two of the determinants of the program's magnitude are: (1) the number of eligible veterans, and (2) their rate of participation.

*Number of eligible veterans.*—Precise figures are not available with respect to the actual number of war-service veterans who are eligible for Cal-Vet benefits at any given period of time. Changing legislative requirements alter the number of eligibles, as do deaths, legal incapacitations, military discharges, and migrations in and out of the State.

An estimate of the number of eligible veterans from each military conflict residing in California as of July 15, 1958, is presented in Table 2. Of the 1,400,000 eligible, approximately 70 percent were World War II veterans. The number of eligible veterans is continuing to increase but there is reason to believe that the increase is progressing at a diminishing rate. Between 1953 and 1958, the number of Korean conflict eligibles was increasing slowly. The number of World War II eligibles was declining gradually, while the number of World War I eligibles was dropping rapidly, due primarily to deaths. Statewide, the number of non-eligible veterans has been increasing faster than the number of eligible California veterans, due to in-migration (Appendix E).<sup>5</sup>

*Participation of eligible veterans.*—According to the Department of Veterans Affairs, 129,196 veterans had obtained a home or farm loan through July 1958.<sup>6</sup> Of these, 21,389 were World War I veterans, 97,035 were World War II eligibles, and 10,772 were veterans of the Korean conflict. On the basis of estimated total eligibles in each group, about 12 percent of World War I, 9.7 percent of World War II, and 4.1 percent of Korean veterans had obtained Cal-Vet farm and home loans through July 1958. The manager of the program, testifying before a State Legislative Committee, estimated that perhaps 25 to 30 percent of the World War II and Korean veterans would eventually take advantage of the program.<sup>7</sup>

Why the much higher estimate of expected participation for Korean and World War II veterans than the 12 percent actual participation of World War I veterans? The higher percentage estimate was based largely on: (1) increased prevalence of home ownership; (2) increased mobility of veterans within the State; (3) greater upward mobility in levels of living; (4) increased frequency of families purchasing more than one home in a lifetime; and (5) fewer eligibility restrictions. However, factors operating against the higher percentage need to be recognized too: (1) the declining need for home loans of aging veterans; (2) inadequacy of Cal-Vet funds; (3) availability of other financing; and (4) the less favorable statutory maximum loan-to-value ratios available to World War II and Korean veterans than to World War I veterans.

If the program were to serve 25 percent of all World War II and Korean veterans, about 220,000 more loans and an additional investment of \$2.8 billion, assuming an average loan of \$13,000 per borrower, would be required. The program would grow to nearly 2.5 times its 1960 size of \$1.1 billion of loans outstanding. At the rate of 1,500 loans per month, nearly 12 years would be needed to take care of the untapped potential. Many of the veterans, obviously, would not wait that long to satisfy their housing needs with a Cal-Vet loan.

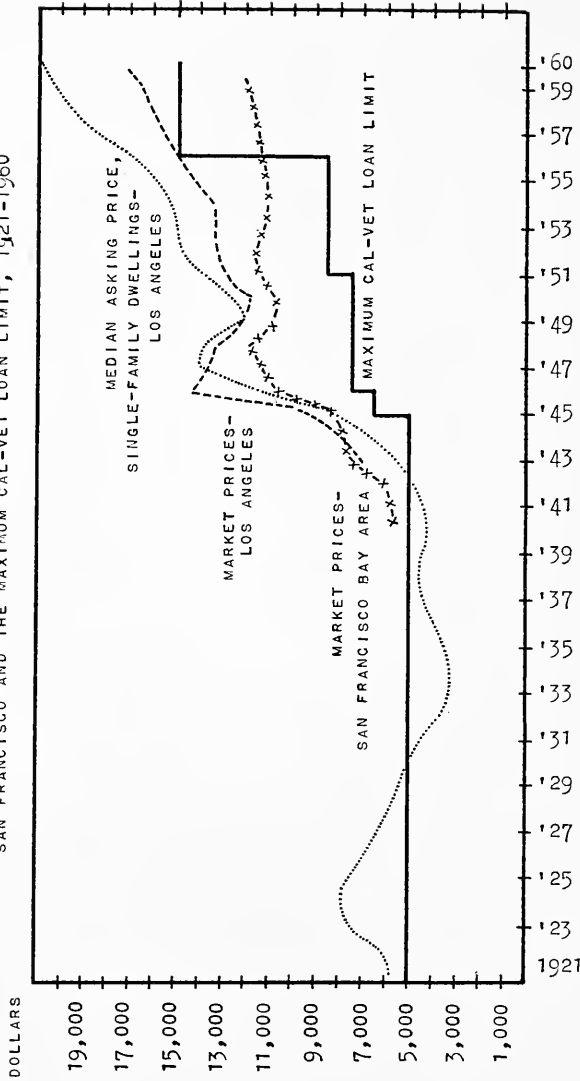
#### SCARCITY OF LOANABLE FUNDS

One of the major reasons why more eligible veterans have not participated in the Cal-Vet program has been the lack of loanable funds. The scarcity of funds has been more acute in some periods than in others.

Periodic scarcity of funds prior to World War II occurred because of legislative restrictions on the acquisition of new funds until old funds were expended. The major problem of scarcity occurred after 1950 and especially after 1956. The large number of returning World War II veterans created an unprecedented demand for funds in the early 1950's which was curbed chiefly by the low maximum allowable loans. The rapid rise of housing prices after World War II added to the pressure for

CHART 3

RESIDENTIAL REAL ESTATE PRICES IN LOS ANGELES AND  
SAN FRANCISCO AND THE MAXIMUM CAL-VET LOAN LIMIT, 1921-1960



- SOURCES- 1. LOS ANGELES MEDIAN ASKING PRICES OF SINGLE-FAMILY DWELLINGS (2-3 BEDROOMS). ROBERT WILLIAMS AND GRACE MARSHALL, "FACTORS IN HOUSING SUPPLY AND DEMAND IN L.A. COUNTY," SAVINGS AND LOAN JOURNAL JUNE, 1955. 1955-1960 DATA IN RESIDENTIAL RESEARCH REPORT, SECOND QUARTER, 1960.
2. LOS ANGELES MARKET PRICES OF 50 SINGLE-FAMILY DWELLING UNITS. RESIDENTIAL RESEARCH REPORT, SECOND QUARTER 1960.
3. SAN FRANCISCO BAY AREA MARKET PRICE INDEX (\$5,500 USED AS VALUE IN 1940 BASE YEAR) BAY AREA REAL ESTATE REPORT SECOND QUARTER, 1960

funds. Cal-Vet's loan limit, though increased three times between 1945 and 1956 was considerably below housing prices in the two major markets of the State, Los Angeles and San Francisco (Chart 3). Because of rising prices and lagging loan limits, Cal-Vet loan volumes increased at a decreasing rate during the 1950-55 period.

An internal Cal-Vet study discovered that 60 percent of the loans made in the fourth quarter of 1955 were for refinancing of home loans obtained from other sources. In other words, many eligible veterans were forced to obtain their original home loans elsewhere. The study concluded that because of low loan-to-value ratios a substantial number of California veterans were priced out of the market for new homes.<sup>8</sup>

The Cal-Vet survey disclosures resulted in 1956 legislation which (a) raised the maximum home loan from \$8,500 to \$15,000, and (b) abolished the \$17,000 limit on the allowable home purchase value. Raising the loan maximum from \$8,500 to \$15,000 created a great upsurge of effective demand for Cal-Vet loans in 1956 and 1957 (Chart 4). Home loan requests increased from about 1,000 per month in 1955 to more than 3,000 in early 1957. The backlog of unprocessed loan applications reached a peak of 48,272 in November 1957.

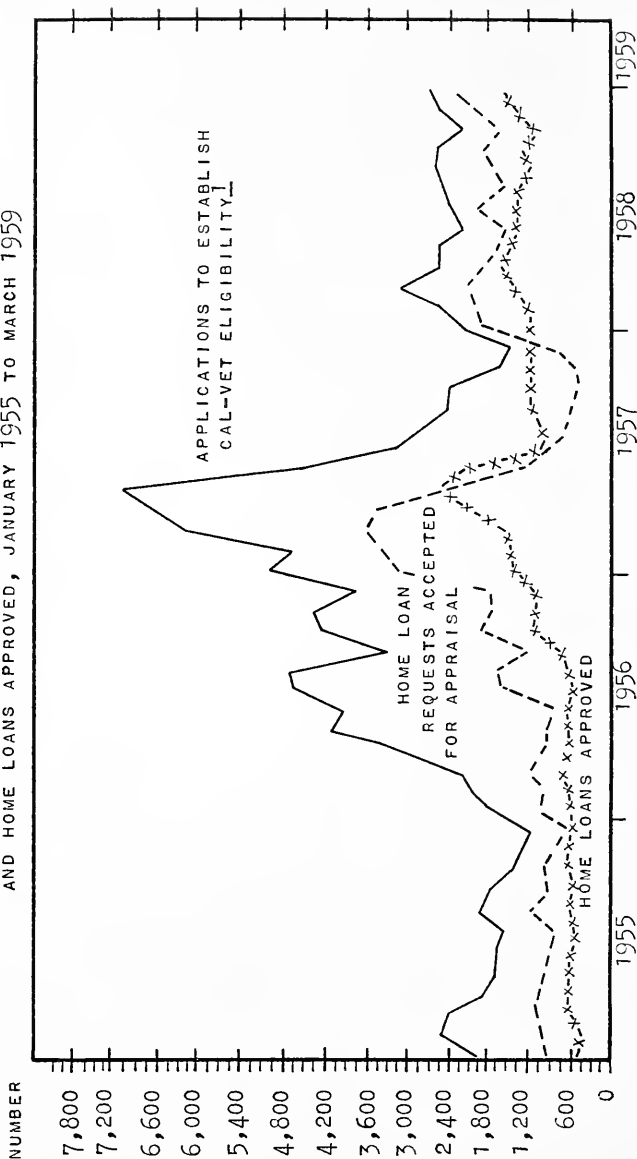
The Legislature imposed a moratorium on refinancing in 1957. District office quotas and various other rationing schemes, such as priorities for wounded and disabled veterans and for applicants seeking smaller loans, were utilized in an attempt to retard demand and to allocate scarce funds equitably (Appendix C). The controls affected veterans' eligibilities differently depending on their location of residence in the State, time of filing an application, and size of loan desired. The management problems encountered in rationing funds will be considered in the next chapter.

New legislation in 1958 placed a permanent ban on all refinancing applications filed after July 3, 1957, except (a) when a veteran had acquired an interest in the property after filing a purchase application with Cal-Vet, (b) when the application was for financing the construction of a home on unimproved property; and (c) when Cal-Vet had excess funds not needed to finance original purchases. In effect, the only qualified veterans not eligible for Cal-Vet financial assistance after July 3, 1957 were those who bought a home without first filing a purchase application with Cal-Vet. The 1958 Legislature reinstated the maximum appraised value of a home but increased it to \$25,000.

Based on the new financial terms, as reported above, the total loan volume in 1959 settled to an average of 1,654 loans and about \$21 million monthly. The new terms implied a promise of greater benefits to more veterans, but the benefits were not distributed as widely as anticipated due to the scarcity of funds. While loan volumes increased by 240 percent between fiscal 1955 and 1959, the number of loans increased by only 150

CHART 4

APPLICATIONS FOR CAL-VET ELIGIBILITY, HOME-LOAN APPRAISALS,  
AND HOME LOANS APPROVED, JANUARY 1955 TO MARCH 1959



<sup>1</sup> APPLICATIONS FOR ELIGIBILITY WERE FOR ALL VETERANS' BENEFITS BUT THE  
VAST MAJORITY WAS FOR HOME PURCHASES. (THE ACTUAL RATIO IS UNKNOWN.)

SOURCE- MONTHLY REPORTS OF DEPARTMENT OF VETERANS AFFAIRS, SACRAMENTO, CALIFORNIA.

percent. Nearly 65 percent of the loans in force by dollar volume and 50 percent in number on June 20, 1960 were written in the three years of 1957, 1958 and 1959 (see Table 3 and Appendix D, Table D-3 for details).

The backlog of unprocessed applications numbered 11,072 on January 1, 1960. However, many of these applications will never reach the appraisal stage. During the waiting period some veterans obtain funds elsewhere and others change their buying intentions. Cal-Vet introduced the loan commitment in early 1960 to provide veterans actually purchasing a home, in contrast to those intending to purchase, with financial assurance during the waiting period of an eventual Cal-Vet loan.

TABLE 3  
NUMBER AND AMOUNT OF HOME LOAN BALANCES OUTSTANDING,  
BY YEAR OF LOAN, AS OF JUNE 20, 1960

Fiscal Year	Contracts Outstanding	
	Value (percent)	Number (percent)
1956 and before.....	30.71	45.91
1956-57.....	17.44	15.55
1957-58.....	20.08	15.42
1958-59.....	24.59	17.92
1959-60.....	7.18	5.20
Total.....	100.00	100.00

SOURCE: Appendix D, Table D-3.

### Costs and Charges to Veterans

The costs and charges of concern here are chiefly those that make up a veteran's money obligations to Cal-Vet and that are amortized by monthly installment payments. The three common installment-payment determinants to be considered are: size of loan, interest rate, and maturity date of the loan contract.

The 1958 costs and charges may be studied in Appendix A, and their evolution from 1921 to 1961 in Appendix C. A veteran's actual cost of home ownership will be considered in Chapter VI.

### SIZE OF LOAN

The loan to a veteran, which Cal-Vet calls its selling price, is composed of a number of items representing monies which it advances to the veteran. The contract with a home-buying veteran stipulates that:

"The selling price for said property shall be the sum of.....Dollars (\$.....) and all expenses incurred and estimated to be incurred by the Department in relation thereto, as provided in Section 986.9 of the..... code.....<sup>29</sup>

Nearly all veterans receive loans covering three items: (1) a home purchase loan, which is limited to a maximum prescribed by law (Table 4); (2) loan closing costs; and (3) insurance premiums. In addition, some veterans borrow to pay their annual property taxes.

*Closing costs.*—Four types of costs are considered as closing costs: the costs of an independent property appraisal, title insurance fees, prorated fire insurance and taxes, and escrow charges. The original law (Appendix C) stipulated that the Department add its estimated administrative and appraisal costs to the veteran's loan, which were established at 5 percent of the loan.<sup>10</sup> The Legislature feared that the income from the loan interest

TABLE 4  
THE STATUTORY MAXIMUM CAL-VET HOME LOAN LIMITS,  
1921-1960

Period	Maximum Loan
1921-1945.....	\$ 5,000 <sup>1</sup>
1945-1946.....	6,500
1946-1951.....	7,500
1951-1956.....	8,500
1956-.....	15,000

<sup>1</sup> World War I veterans were restricted to a \$5,000 loan to 1946.  
Source: Appendix C.

charge would be inadequate to cover the Department's operating expenses.

The administrative (loading) charge was dropped in 1945 and about \$4,500,000 of accumulated administrative charges were either (a) credited to the accounts of current contract holders (Appendix D, Table D-2), (b) refunded in cash to paid-up contract holders or their heirs, (c) or transferred to surplus, if a residual. In 1955, all appraisal and inspection fees were dropped, except for a \$50 charge for processing construction contracts.

Title insurance and escrow fees, if charged to the veteran, may be paid by the Department and added to the veteran's loan amount. In other words, a veteran may, if he wishes, buy a home without making a cash outlay for closing costs.

*Insurance coverage.*—One of the distinctive features of the Cal-Vet program is its group life, disability and fire insurance coverage which is provided by private companies at comparatively low rates. All home buyers must apply for life and disability insurance but only those meeting an insurability test are required to carry such insurance. The non-insurable veterans are eligible for a home loan but must assume their own life and disability credit risks.

The Home Protection Plan of life insurance was initiated in 1938. The 1960 premium was \$.35 per month per \$1,000 unpaid loan balance. Through June 30, 1960, more than 2,700 veterans' contracts, totalling nearly \$11.5 million had been paid in full under the plan. Life insurance reserves amounted to another \$11.5 million.<sup>11</sup> In early 1960, the Plan was amended to provide cash payments to a veteran's beneficiaries of 20 percent of the unpaid contract balance and double this amount if death were accidental before age 70. The disability program was begun in 1955 and provided that the monthly payment to veterans meeting the disability test is \$80, which is used to amortize the loan balance. Life, disability, and fire insurance premiums on the original loan balance are paid by the Department and added to the veteran's loan balance, which extends the maturity date of the contract.

While legal ownership of a home by Cal-Vet may deprive the buyer of some freedom of ownership and use, it may provide him unexpected protection. For example, during the 1955-56 Yuba and Feather River floods some 120 Cal-Vet homes were damaged in the Yuba City-Marysville area of central California. The Department received special legislative authorization to use \$1,000,000 of its surplus funds to replace or repair the affected homes, which it did at no extra cost to the contract holders. Of this amount, \$362,963 was used (Appendix D, Table D-12).<sup>12</sup>

*Taxes.*—Even though the State holds legal title to the property, contract holders pay full property taxes. Prior to 1948, contract holders paid property taxes only on their possessory interest. (A Statewide formula determining possessory interest was devised in 1932; see Appendix C.) A 1948 State Supreme Court decision (*Eisley vs. Mohan*, 31, California, 637) declared the practice of taxing only the possessory interest as invalid on the ground that Cal-Vet held title to the property for loan security purposes only.

Cal-Vet has paid property taxes for contract holders since 1950. The amount advanced is repaid in 12 monthly installments. The regular Cal-Vet interest rate is charged on the declining unpaid balance. Some 50 percent of all contract holders availed themselves of this service in 1958.

#### INTEREST RATE

Cal-Vet is authorized to charge two different interest rates (Appendix A). The law requires that all contract holders who are not eligible California veterans, i.e., those who were permitted to acquire the property from eligible California veterans, be charged a 6 percent per annum rate on the declining unpaid balance. The Legislature permits the California Veterans Board and the Veterans Finance Committee (both of which will be described in a later section) to set the rate charged eligible California veterans, provided the yearly rate does not exceed 5 percent of the

declining unpaid balance. The last rate change was an increase from  $3\frac{1}{2}$  to 4 percent per annum on February 1, 1960. The lowest annual rate charged, as may be noted in Table 5, was 3 percent in the 1946-1957 period. These are low rates compared to market rates on other mortgage loans, as will be observed in Chapter V.

One of the unique features of the Cal-Vet interest rate is its flexibility. Whenever either rate is raised or lowered the new rate is applicable to all loan balances outstanding in that class. Contract holders are to be notified 90 days in advance of a rate change. A change in the interest rate does not affect the installment payment, as will be observed later, but does affect the maturity date of the contract.

TABLE 5  
INTEREST RATES CHARGED CAL-VET CONTRACT HOLDERS,  
1921-1960

Period	Interest Rate (percent)
1921- 7/1/1945.....	5
7/1/1945- 8/1/1946.....	4
8/1/1946-12/1/1957.....	3
12/1/1957- 2/1/1960.....	$3\frac{1}{2}$
2/1/1960- .....	4

SOURCE: Appendix C.

#### MATURITY DATE OF THE CONTRACT

Cal-Vet is permitted to write contracts for a maximum of 40 years but all are written for 20 years unless the monthly payment falls below \$30.00. A 20-year contract simplifies the Department's financial management since most loanable funds are obtained from the sale of bonds bearing 20-25 year maturities. A veteran may select a lesser term but is not encouraged to do so. An analysis of actual contract maturities is presented in Chapter VI.

Original contract maturities are altered for a number of reasons. Life and disability insurance proceeds shorten contract maturities as do prepayments and repossessions. A contract holder is free to sell his property at any time but the loan balance must be paid off before he can transfer title. Prepayment of the loan is permitted at any installment period without penalty except that a loan paid off within two years of its making is assessed a 2 percent prepayment penalty. A property is subject to repossession and resale if the contract holder defaults. Insurance premiums and an increased interest rate tend to extend the contract period rather than increase the installment payment.

### INSTALLMENT PAYMENT

Installment payments remain fixed on contracts outstanding in order to comply with the 1946 law which states that "Any change in the interest rate shall not affect the total amount of any installment payment . . ."<sup>13</sup> In other words, between 1946 and 1961 all new contracts were amortized on the basis of the 3 percent interest rate prevailing in 1946 (Table 5). Amortizing a 4 percent contract at a 3 percent rate, for example, prolongs its maturity about 3 years and increases a veteran's total costs over the life of the loan.<sup>14</sup> On the other hand, low installment payments stimulate the demand for Cal-Vet loans.

### Administration

In appraising the administration of the Cal-Vet program, cognizance need be given its underlying philosophy. The basic purpose of the program is to provide benefits to a select group of California citizens at no direct expense to its other citizens. To accomplish this purpose, two criteria are employed in formulating program policies and procedures: (1) it shall be operated at no direct cost or profit to the State, (2) its primary concern at all times shall be the welfare of the veteran and his family. The application of these principles is evident in such actions as Cal-Vet paying insurance premiums, rehabilitating damaged or destroyed homes, and refunding prepaid administration charges.

The administration of the program is characterized by (a) division of policymaking responsibility, (b) decentralization and delegation of decision-making authority to implement policy, and (c) centralization of the principal records and accounts in the Sacramento headquarters.

### POLICYMAKING

The original and supreme policymaking body is the State Legislature operating within the framework of the State Constitution. The Legislature not only determines the Cal-Vet administrative structure but also most of the conditions to be met by a veteran seeking a farm or home loan. Because the State's credit is involved, the Legislature has established special safeguards for the acquisition and disbursement of funds. In passing the first bond Act in 1921, the Legislature created the Veterans Welfare Finance Committee (now known as the Veterans Finance Committee)<sup>15</sup> to control and administer the sale of bonds and to accept or reject the terms offered by bond buyers. Also, the accounts of the Division of Farm and Home Purchases must be audited once yearly by an outside auditing firm.

Originally, and until 1946, the Veterans Farm and Home Purchase Act was administered by the California Veterans Welfare Board, whose mem-

bers were appointed by the Governor. The Board evaluated and acted on each loan application for the purchase of a farm or home.

In 1929, a Department of Military and Veterans Affairs was created under the administration of the Veterans Welfare Board. The reorganization was to provide greater coordination and less duplication among the several benefit programs that had been operating independently of each other. A major overhaul of the entire administrative structure occurred again in 1946. The decision-making Veterans Welfare Board was abolished (Appendix B). A new Department of Veterans Affairs was established as a public corporation with a Director, serving at the pleasure of the Governor, as the Department's administrative head. A new California Veterans Board, whose seven members are appointed by the Governor for four-year staggered terms, was created to establish policy for the Department and to integrate Federal and State veterans' benefits. The details of administering the Farm and Home Purchase Program were assigned to a new Division of Farm and Home Purchases, with a manager in charge. This division is one of four (Educational Assistance, Service and Coordination, and Veterans Home are the others) in the new Department.

With respect to the farm and home purchase program, the California Veterans Board has retained little policymaking power; it acts mainly as an advisory committee.<sup>16</sup> The Department Director and the manager of the Farm and Home Purchase Division have acquired most of the Board's policymaking powers.<sup>17</sup>

#### DELEGATION OF AUTHORITY

The establishment of a farm and home purchase division in 1946 resulted in the delegation of administrative details to an organization staffed largely by civil service personnel. This change gave the program greater operational stability and facilitated the expansion of the staff and program to meet the increased post-World War II demands. The growth of the Cal-Vet work load necessitated the establishment of field offices which increased in number from the original two (northern and southern) to 17 in 1958.<sup>18</sup> Each field office is staffed to process all phases of the farm and home purchase program, including receiving applications, checking the veteran's credit standing, appraising the property to be purchased, and completing escrow details. The field office managers have considerable discretion in deciding whether to accept or reject veterans and properties.

#### CENTRALIZATION OF RECORDS AND ACCOUNTS

Located in the Sacramento offices are the chief administrative officers who review various aspects of each purchase application. Few applications are rejected at this level; some may be approved that were rejected in a field office. The central review permits the Department to maintain uni-

form standards for and provide equitable treatment of veterans throughout the State. Also, the central review enables the Department to maintain a balance between the volume of purchases and available funds by regulating the rate at which contracts are approved.

All purchase contracts are written in the Sacramento headquarters, and all monies to close escrows are sent from there. The head office maintains records of all contracts and accounts, mails monthly statements, receives all payments, initiates foreclosures, and settles all insurance claims.

The Division of Farm and Home Purchases is charged with the responsibility of managing the program in such manner that its income covers expenses. The major source of its income is the interest earned on loans outstanding, and its major expenses are operating expenses and the costs of borrowed funds. An analysis of the Division's financial management is presented in the next chapter.

## *Chapter III*

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### **FINANCIAL MANAGEMENT OF CAL-VET'S OPERATIONS**

This section is chiefly concerned with Cal-Vet's management of its internal financial operations. There are two separate but interrelated aspects to Cal-Vet's financial management. One is the lending of funds and the other is the acquisition of funds for lending. As was observed earlier, Cal-Vet's lending authority is greatly circumscribed by legislative enactments. Cal-Vet administrators, however, do have authority to raise or lower home-loan interest rates within a prescribed range, and to allocate loanable funds among alternative uses and users. Their power to obtain loanable funds is largely restricted to initiating requests for the sale of State bonds. Loanable funds from other sources are comparatively minor in amount.

#### **Flow of Funds**

Cal-Vet has funds flowing into and out of a revolving Veterans Farm and Home Building Fund, which was established by legislative directive in 1921. Monies flow into the Fund from (a) sale of State bonds, (b) regular and accelerated amortization (principal and interest) of loans, (c) prepayment of loans by sale, repossession, or life insurance, (d) an occasional appropriation from the State treasury, (e) earnings from invested reserve funds, and (f) miscellaneous sources such as appraisal and construction fees, service charges, bond premiums received, and profits from the sale of repossessed properties. Monies flow out of the Fund for (a) purchases of homes and farms, (b) construction and repair advances, (c) bond redemptions and interest payments, (d) operating expenses, and (e) for such incidental items as closing costs, insurance premiums, and taxes.

Through June 30, 1960, Cal-Vet had made \$1,494 million in home and farm loans. During the same period it had issued \$1,385 million in bonds (Appendix F, Table F-1), which financed roughly 92 percent of the total loan volume. The details and economic significance of bond financing are treated in the following chapter.

In recent years, the amortization and prepayment of contracts in larger amounts than needed for bond redemptions, bond interest payments, and operating expenses have provided Cal-Vet with additional money for reinvestment (Table 6). The \$46.6 million estimated as available for reinvestment in 1959-60 amounted to nearly 18 percent of the \$252 million of new loans made in that year.

The \$118.6 million of receipts on contract payments in 1959-60 were distributed as follows: \$98.6 million in regular and final payments and

TABLE 6  
ESTIMATED CAL-VET CONTRACT PAYMENTS AVAILABLE FOR  
REINVESTMENT, 1949-50 TO 1959-60

Fiscal Year	Contract Payments Received, including Interest	Total Bond Redemptions, including Interest	Total Operating Expenses	Balance of Contract Payments Available for Reinvestment
1949-50.....	\$14,181,570	\$ 9,432,280	\$ 1,133,849	\$ 3,615,441
1950-51.....	20,409,240	11,609,603	1,287,532	7,512,305
1951-52.....	24,713,748	12,723,548	1,368,024	10,612,176
1952-53.....	32,533,821	14,856,440	1,600,340	16,077,041
1953-54.....	36,625,842	17,947,640	1,665,447	17,012,755
1954-55.....	46,226,004	22,241,738	1,960,611	22,023,655
1955-56.....	56,789,778	25,594,431	2,120,915	29,074,432
1956-57.....	61,644,121	29,733,013	3,538,949	28,372,159
1957-58.....	72,976,366	39,142,745	3,925,057	29,908,564
1958-59.....	99,658,239	56,943,467	4,210,563	38,504,209
1959-60.....	118,579,382	68,952,015	4,050,785	46,576,582

SOURCE: Contract payments, Appendix D, Table D-2; bond redemptions and interest, Appendix H, Table H-1; operating expenses, Appendix G, Table G-1.

\$20 million in advance prepayments and life insurance settlements. Interest earned on loan contracts accounted for \$36.4 million of the \$118.6 million total. Miscellaneous sources provided some \$2 million of funds in 1959-60 (Appendix G, Table G-1).

Direct appropriations from the State's treasury were made in 1921-23 and again in 1943. The original Act provided for a revolving loan fund of \$2,000,000 repayable in 50 years and bearing interest at 4 percent per annum. If and when bonds were sold to obtain loanable funds, \$1,950,000 was to be repaid to the State from the bond sale proceeds and \$50,000 to be retained for administrative purposes.<sup>1</sup> Of the latter amount, \$30,000 was used by Cal-Vet. All of the \$50,000 appropriated for administrative purposes in 1943 was retained by Cal-Vet.

In 1952, the Legislature provided that the State may advance loan funds to Cal-Vet. The Code stipulates that any such advances shall bear an interest rate of 1.74 percent per annum and be repayable within 21

years of the advance.<sup>2</sup> Cal-Vet had occasion to borrow \$55 million from the State's General Fund in 1952 in anticipation of the electorate's approval of a new bond issue. The money, plus interest, was repaid in 1953 when the new bonds were sold. Except for this instance, Cal-Vet has not used State funds to tide it over periods when the issuance of bonds was difficult or costly.

The outflow of funds is chiefly for farm and home loans after bond redemptions, bond interest payments, and operating expenses have been met. Investments in buildings, furniture, and United States Government securities account for an occasional, but minor, outflow of funds.

Cal-Vet's major financial management problems are: (1) to control the inflow and outflow of funds so as to maintain solvency of the program; and (2) to allocate loanable funds prudently among alternative uses, uniformly over time, and equitably among borrowers.

### Operating Experience

Inasmuch as the program is neither to make money nor lose money for the State, Cal-Vet administrators attempt to follow a break-even financial policy. This must be a long-run policy so that, in case of liquidation, revenues and reserves may be adequate to meet future operating expenses and bond redemption costs. In this respect, how well is Cal-Vet managed? What are its major income and expense problems? Could the program be liquidated without heavy losses to the State?

#### THE GENERAL RECORD

Except for its first two years, the Cal-Vet program has remained solvent to the extent that by June 30, 1960, it had accumulated a \$20.7 million earned surplus (Appendix G, Table G-1). The program did not record operating gains every year, however. In 14 of its 39 fiscal years of operation, Cal-Vet experienced operating losses (operating expenses were greater than income from farm and home loans). Such losses were offset by other income and/or recovered from earned surplus.

The 14 years of losses occurred in four different time periods. The first was in the beginning five years when revenues were low. The second period of losses occurred during three years of the depressed 1930's. In these three years, operating losses were offset by other income; earned surplus continued to rise. Operating deficits occurred primarily because repossessed properties were sold on a depressed market. (See Appendix D, Tables D-1 and D-2, for number of repossessions and dollar gains or losses from resales.)

Cumulative loan delinquencies reached a peak of \$1,000,000 in January, 1934,<sup>3</sup> and by June 30, 1935, more than \$8.8 million of repossessed properties were in Cal-Vet's hands. The repossession rate in 1933-34 was about

14 percent of the number of loans in force and dropped to about 7 percent in the following year.<sup>4</sup> The Veterans Welfare Board reversed its repossession policy late in 1934 to one of preventing repossessions by adjusting contract terms to a veteran's ability to pay (Appendix C). In the words of the manager of Cal-Vet operations in that period,

"We expanded our staff and put practically all hands out into the field to contact the contract-holders in regard to their financial position, and to appraise the properties which were involved in delinquencies . . ."<sup>5</sup>

Delinquencies declined to a total of \$113,000 in July of 1936, and repossessed properties on hand declined markedly. Financial losses from resales were fairly heavy in the 1930's, but in no year did they exceed 7 percent, and they averaged less than 3 percent of loan balances outstanding. The lesson learned was that repossessions were not the answer to maintaining solvency of the program let alone that of the borrowers.

Since World War II and until 1959-60, annual repossessions averaged less than one-half of 1 percent in terms of number and dollar volume of loans outstanding. Repossessions in 1959-60 were more than twice the volume of 1958-59 but still remained below 1 percent of loans in force. The rise in repossessions in 1959-60 is attributed to high loan-to-value ratios and the "tight" money market of that period which demanded substantial discounts on the refinancing of loans involved in sales of veterans' properties to non-Cal-Vet buyers. Many veterans preferred to surrender their properties rather than face the loss of their equities and deficiency payments.<sup>6</sup>

The third period of operating deficits occurred during the 1946-50 period of expansion and acceleration. Operating expenses rose sharply and interest income failed to keep pace. The operating deficits and the refunding of accumulated loading-charge reserves (which is explained later) reduced surplus from a high of \$10.9 million in 1946 to \$6.6 million in 1947.

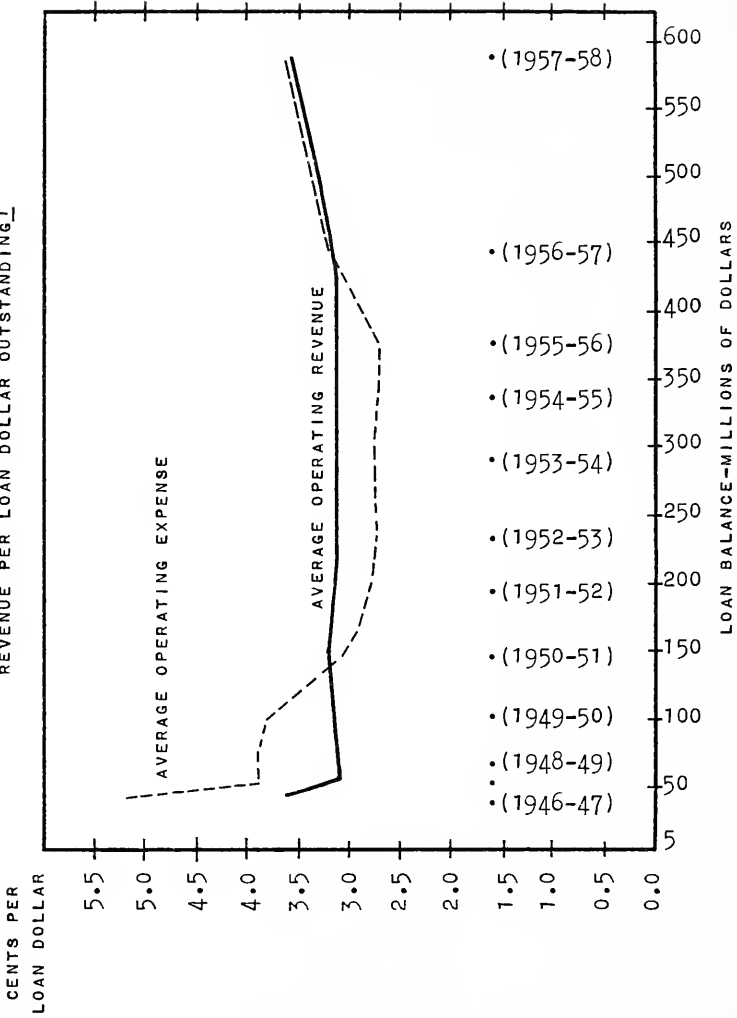
The fourth period of operating deficits occurred in the two fiscal years of 1956 and 1957. The principal reasons for the deficits were (a) increased operating expenses required to service the greater volume of loans occasioned by liberalized loan terms, and (b) increased bond interest expense, which rose from a total of \$8.1 million in the 1955-56 fiscal year to \$17.3 million in the 1957-58 fiscal year.

Operating profits in dollar amounts were the largest in 1959-60. Relative to loans in force they were greatest in the 1950-55 period when they ranged from 10 to 14 percent per loan dollar outstanding.

It is apparent that Cal-Vet's yearly operating experience has varied between substantial losses and substantial gains. Gains and losses appear alternately in a series of successive years, which suggests that they are induced by rather sudden changes in income and/or expenses. An analysis

CHART 5

CAL-VET AVERAGE TOTAL EXPENSE AND  
REVENUE PER LOAN DOLLAR OUTSTANDING<sup>1</sup>



<sup>1</sup> MISCELLANEOUS EXPENSES AND REVENUES ARE EXCLUDED.  
SOURCE- APPENDIX G, TABLE G-1

of operating income and expenses should uncover these changes and the reasons for them.

#### ANALYSIS OF INCOME

More than 95 percent of all Cal-Vet income is interest income obtained from farm and home loans. Interest income is determined largely by the interest rate charged and the volume of loans outstanding. The effect on income of altered interest rates charged borrowers, as recorded in Table 5, may be observed in Appendix G, Table G-1, and Chart 5. The reduction in interest rates from 5 to 4 percent in 1945 and from 4 to 3 percent a year later cut earnings by some \$3 million. The 40 percent decline in the interest rate was soon offset, however, by a 300 percent increase in loan balances outstanding between 1946-47 and 1950-51 (Appendix D, Table D-2). The interest rate rise from 3 to 3½ percent in 1957, plus larger loan balances, increased interest earnings from \$13.6 million in 1956-57 to \$20.2 million in the following fiscal year. The rate increase from 3½ to 4 percent in February 1960 helped raise interest income to more than \$36 million for the 1959-60 fiscal year (Table 7).

Another less important source of Cal-Vet income is interest earned on investments, which amounted to \$2 million in fiscal 1959-60. Monies currently not needed for lending or bond redemption are stored in the State's surplus money investment fund which is held largely in short-term United States Government securities. Before 1959, Cal-Vet handled its own investments in such securities. Cal-Vet attempts to maintain an amount equal to 3 percent of its loan balances in such liquid securities for emergency purposes. On June 30, 1960, it had some \$39.8 million invested in the State's surplus money fund (Table 8), in comparison to \$1.1 billion of loans in force.

An additional source of income from 1956 to June 1960 was interest income earned on advances made to the State for the construction of the \$2.7 million Veterans Department office building in Sacramento and its San Jose District office. The State paid Cal-Vet 3 percent interest per annum on such advances. Effective June 30, 1960, however, the Veterans Affairs Construction Fund was abolished by legislative decree. The ownership of the buildings was transferred from the State to the Department of Veterans Affairs, which eliminated the advances and the interest therefrom.

Three other sources provide Cal-Vet with minor amounts of revenue. These are prepayment service charges, construction loan fees, and profits from the sale of repossessed properties. Cal-Vet considers these monies as recovered costs rather than income. Prepayment service charges represent the 2 percent penalty of the original loan value imposed on loans paid in full within two years of the original contract date. The \$115,000

TABLE 7  
CAL-VET'S STATEMENT OF INCOME AND EXPENDITURES,  
JULY 1, 1959-JUNE 30, 1960

<i>Income</i>	
Interest Income:	
Interest on contracts.....	\$36,433,779.58
Interest on investments.....	1,972,491.29
Interest on construction fund advances.....	79,267.89
Total.....	\$38,485,538.7
Miscellaneous Income:	
Prepayment service charge.....	\$ 115,080.42
Construction loan fees.....	61,855.00
Profit on sale of repossessed properties.....	7,449.23
Other income.....	15,725.14
	\$ 200,109.79
Total Income.....	\$38,685,648.55
<i>Expenditures:</i>	
Interest Expenditures:	
On outstanding bonds (net after amortization of bond premium of \$326,102.61).....	\$30,369,819.57
Operating Expenditures:	
Salaries and wages.....	\$2,321,575.13
Contributions to employees' retirement system.....	182,183.35
Office expense.....	72,323.69
Postage.....	140,969.22
Telephone and telegraph.....	49,213.70
Printing.....	29,675.04
Audit expense.....	4,500.00
Travel.....	40,249.85
Automobile expense.....	65,556.62
Pro-rata, services of other State Departments	109,389.00
Pro-rata, general fiscal administration of the State.....	50,548.23
Bond issue expense.....	54,843.47
Bond service expense.....	55,271.40
Rent of tabulating equipment.....	44,566.99
Rent of office buildings.....	205,628.57
Furniture and equipment.....	21,238.34
Credit reports.....	29,873.02
Fees of outside appraisers.....	124,082.64
Fire insurance premiums.....	446,347.55
Miscellaneous.....	6,001.22
Total.....	\$4,054,037.03
Total Expenditures.....	\$34,423,856.60
Excess of Income over Expenditures.....	\$ 4,261,791.95

SOURCE: Report to Governor Edmund G. Brown and the California Veterans Board, Department of Veterans Affairs, June, 1960, p. 6.

TABLE 8  
CAL-VET'S BALANCE SHEET, <sup>1</sup>  
JUNE 30, 1960

<i>Assets:</i>	
Cash and revolving funds.....	\$ 2,041,683.26
Surplus money investment fund (at cost) plus accrued interest....	39,819,924.81
Miscellaneous accounts receivable.....	16,235.98
<i>Contracts of sale:</i>	
In force.....	\$1,041,999,483.38
In process.....	19,057,294.38
	<hr/>
Reposessed property.....	1,061,056,777.76
	364,589.06
<i>Investment in fixed assets:</i>	
Land.....	416,445.48
Improvements.....	2,267,015.89
Furniture and equipment.....	546,967.15
Advances to architecture revolving fund.....	108,000.00
	<hr/>
	3,338,428.52
Total Assets.....	<hr/>
	\$1,106,637,639.39
<i>Liabilities:</i>	
Claims payable in process.....	36,480.92
<i>Accounts payable:</i>	
Life insurance premiums.....	514,776.25
Disability insurance premiums.....	92,785.60
Other.....	178,628.45
Bond sale deposit.....	5,000.00
	<hr/>
	791,190.30
<i>Outstanding bonds and interest:</i>	
Principal.....	1,070,890,000.00
Accrued interest.....	10,864,214.50
	<hr/>
	1,081,754,214.50
Total liabilities.....	<hr/>
	\$1,082,581,885.72
<i>Other Credits:</i>	
Unamortized bond premiums.....	1,644,619.56
Uncleared collections.....	1,916.48
	<hr/>
	1,646,536.54
<i>Accumulated Reserve:</i>	
Balance, July 1, 1959 <sup>2</sup> .....	14,808,996.66
Invested in fixed assets <sup>2</sup> .....	3,338,428.52
Net operating revenue from July, 1959, to date...	4,261,791.95
	<hr/>
	22,409,217.13
Total liabilities and reserves.....	<hr/>
	\$1,106,637,639.39

<sup>1</sup> This statement does not include unliquidated commitments of \$11,517,847.53 (escrow \$8,051,983, and construction \$3,465,864.53).

<sup>2</sup> Adjusted to include assets and surplus of Veterans Affairs Construction Fund transferred in accordance with Ch. 1902, Stats. of 1959 on June 30, 1960.

SOURCE: *Report to Governor Edmund G. Brown and the California Veterans Board*, Department of Veterans Affairs, June 1960, p. 5.

so collected in 1959-60 represented more than \$5 million of loans and about 400 contracts. In 1957-58, Cal-Vet collected only \$53,000 in such fees. Construction loan fees of \$50 per application help defray the cost of approving home building plans and inspecting construction underway. Since 1948, annual resale profits have exceeded resale losses by a small amount. During the 1930's, however, substantial resale losses were common.

Two other sources of working funds, appearing as reserves in Cal-Vet's accounts, (Appendix G, Table G-1) need to be mentioned. The first is the 5 percent load or administrative charge assessed each new borrower (not to be confused with the initial payment) which was collected from the beginning of the program until 1945. The purpose of the charge was to insure the program's solvency in case interest income was inadequate. The results show, however, that the administrative charge was never needed to cover operating deficits. Until 1940, the accumulated load charge accounted for more than 50 percent of the Cal-Vet's total surplus. In 1945, the \$4.5 million in this fund was redistributed with interest. About \$2.3 million was returned to 8,739 paid-up contract holders or their heirs. Another \$2.5 million was credited to 7,723 current contract holders. More than \$1.1 million of unclaimed refunds reverted to the surplus account in 1948.

The second income item appearing as a reserve is the premium paid Cal-Vet by bond buyers. Accumulated premiums reached a peak of \$5.3 million in 1948-49, and the total has been diminishing since. The reason for the decline, as will be explained in more detail later, is that in 1949 Cal-Vet changed its method of determining the effective rate of interest on new bond issues. Before that date, the Veterans Finance Committee set the interest rate for each bond issue. The rate was apparently so much above the yields on competitive investment opportunities as to bring forth a substantial premium from investors. After 1949, bond buyers bid the interest rate Cal-Vet was to pay and often "sweetened" the bid by offering a small premium above the quoted rate. The premium in effect lowered Cal-Vet's net cost of borrowing. Bond interest expense is not reduced on Cal-Vet's books by the amount of the premium, however. Instead, the unamortized bond premium is carried as a credit. When bonds are redeemed, the premiums related to the redeemed bonds are transferred to income. As the high-premium bonds are paid off, the total bond premium remaining diminishes in amount, as does the income from this source.

#### ANALYSIS OF EXPENSES

The two major types of expenses are bond interest and operating expenses. Because of its much greater magnitude and importance, bond interest expense will be analyzed first.

*Bond interest expense.*—Bond interest expense amounted to more than \$30 million in 1959–60. This is more than a ten-fold rise from the \$2.7 million in 1949–50 and nearly a three-fold rise from the \$10.7 million of bond interest expense in 1956–57, (Appendix G, Table G-1).\*

Annual bond interest expense is determined by two factors: (1) the volume of unredeemed bonds, and (2) the average interest rate paid on the unredeemed bonds. It has been noted that the volume of unredeemed bonds increased from \$132 million on August 1950 to \$1,120 million in June 1960. While bonds outstanding increased nearly eight-fold in that period, average interest rates on unredeemed bonds increased, too. The increase was nearly double from 1.7023 percent per annum in 1950 to 3.1899 percent in 1960 (Appendix F, Table F-1).

Bond interest rates receive more intensive analysis in the next chapter, but it should be noted here that the average bond interest rates were falling from 1924 to 1950, and rising since 1950. The magnitude and direction of change in the average rate is determined by the amount of and interest rates on new bond issues in relation to the amount of and interest rates on unredeemed issues outstanding. Bond interest rates on new Cal-Vet issues fell from a high of 4.49 percent in 1924 to a low of less than 1 percent per annum for the August 1945 issue. Since 1945, in general, interest rates on new issues have been rising. In spite of the rising rates in the immediate post-World War II period, the average rates continued to fall until 1950. After 1956, interest rates on new bond issues rose rapidly while average rates on unredeemed bonds rose slowly. This may be seen more clearly in Chart 6.

In Cal-Vet's annual operating budget, bond interest expense is a known fixed-cost item that can be planned for and is not directly related to the fluctuating current bond interest rates.

*Operating expenses.*—Operating expenses are shown in detail in Table 8, for 1959–1960.<sup>7</sup> These expenses, which increased to a high of \$4.2 million in 1958–59, generally rose and fell, though not proportionately, with the volume of business. An exception occurred during the 1930's when operating expenses rose because of delinquencies and repossessions while the total loan balance declined. In the 1936–38 period, losses from the resale of repossessed properties exceeded all other operating expenses.

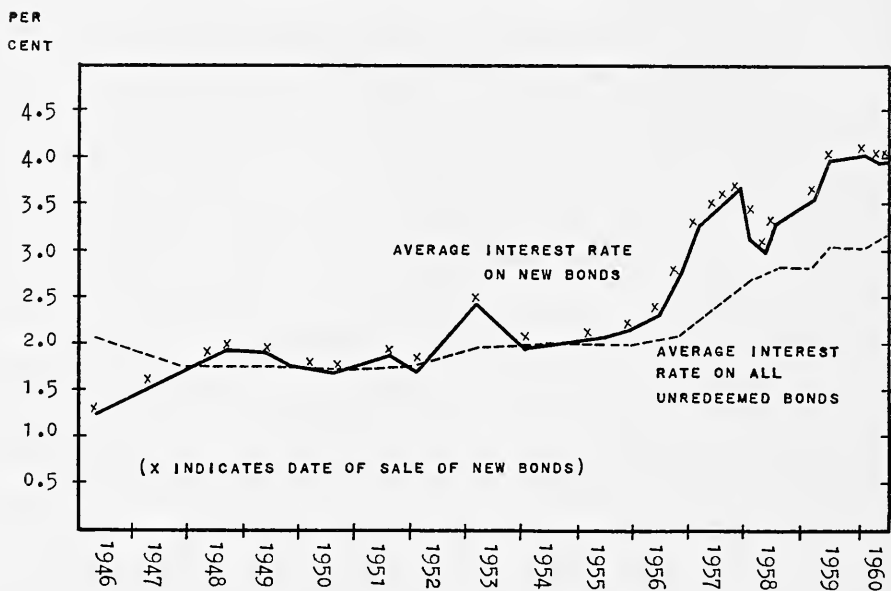
More than 70 percent of operating expenses are relatively fixed (salaries and wages, retirement contributions, pro-rata expenses of other State agencies, and rent). Salaries, wages and retirement contributions alone account for more than 60 percent of all operating expenses. They reached a peak of \$2.7 million (\$2.5 million in wages and salaries and \$.2 in retirement contributions) in the 1957–58 fiscal year.<sup>8</sup> In 1959–60, salary expenses were trimmed to \$2.5 million by the elimination of 57 positions.<sup>9</sup>

\* The amounts paid by the State Controller from 1925–60 are recorded in Appendix H, Table H-1.

In addition to meeting the payroll of its own employees, the law requires that the Cal-Vet program pay the salaries and expenses of the seven members of the California Veterans Board, its secretary, and that of the director and deputy director of the Department of Veterans Affairs.<sup>10</sup> Thus, the farm and home loan program carries much of the overhead expense of the other State programs for California veterans.

CHART 6

AVERAGE BOND INTEREST RATES PAID BY CAL-VET, 1946 TO MID-1960  
(ON DATE OF SALE OF NEW BONDS)



SOURCE- APPENDIX F, TABLE F-1

Also, Cal-Vet is required to pay all expenses incurred by the State in the sale and redemption of Cal-Vet bonds, and this amounted to more than \$100,000 in 1959-60. Cal-Vet pays rental on State buildings it occupies and its pro-rata share of other State services.

Expenditures for office furniture and equipment appear as a current expense (Table 7) and have appeared as such rather regularly in the post-World War II period with the opening of new offices. In the 1956-57 fiscal year, for example, \$237,709 was charged to current operations for furniture and equipment,<sup>11</sup> as contrasted to \$21,238 in 1959-60. On the other hand, the original cost value of furniture and equipment in inventory appears as an asset on the Cal-Vet balance sheet (Table 8). As a result, operating expenses are overstated in some years and understated in others.

Fire insurance premiums on all homes under contract were the second largest operating expense item in 1959-60, amounting to \$446,347. Only \$167,771 was spent for this purpose in 1957-58.

"Other" expenses appear on the books irregularly, except for the 1930's when losses resulted from the purchase and sale of United States Government securities (gains were recorded in two years). The \$320,353 spent in 1952-53 was for the repair of damage to Cal-Vet homes in the central California flood. Another \$87,000 appears in the 1957-58 "other" expense account for the construction of a district office building in San Jose. The \$2.7 million charged as a miscellaneous item in 1959-60 represented merely a paper transfer of the Veterans Affairs Building Fund from a claim against the State to an asset of the Department, and a reduction of the surplus account.

*Comparison of operating and bond interest expenses.*—The relationships of operating expenses and bond interest expenses for the 1924-1958 period are depicted in Chart 7, which shows costs in terms of cents per loan dollar outstanding. While operating costs represent fiscal-year expenses, bond interest costs reflect the average interest costs of all unredeemed bonds.

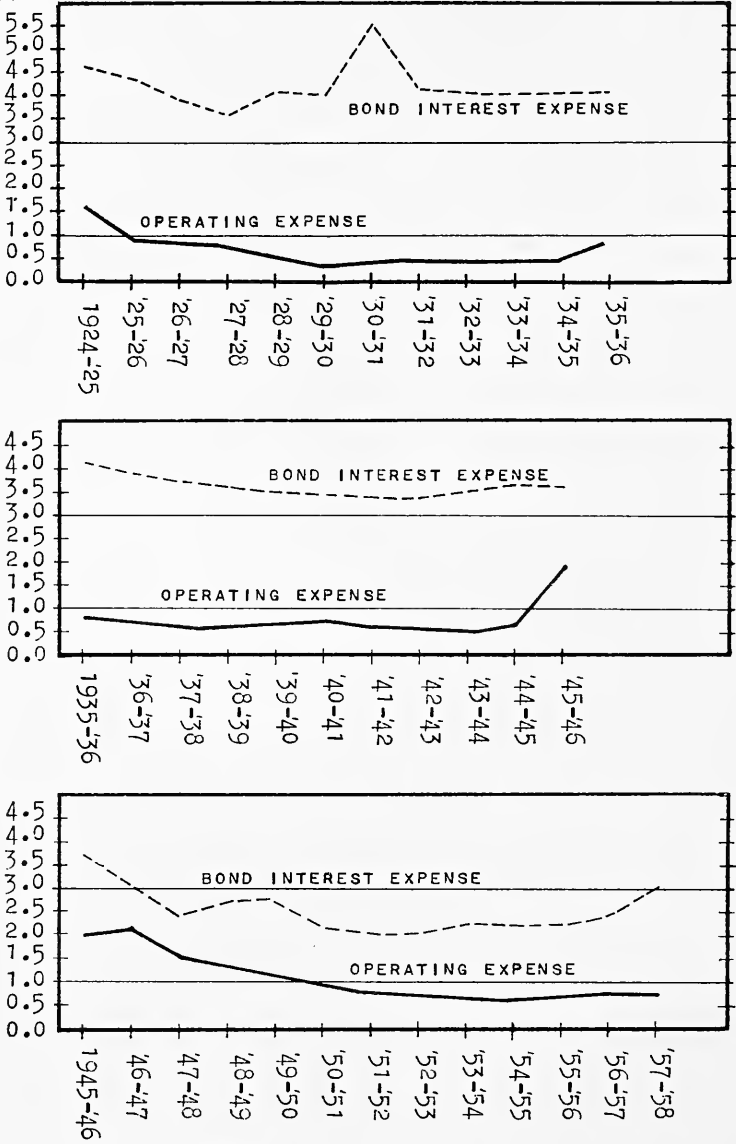
The three segments shown in Chart 7 represent three operational phases of the program. The first phase is the period of rapid growth in the 1920's, ending on a plateau in the early 1930's. The second phase is the period of slow growth in the late 1930's and decline during World War II. The third phase reflects the postwar upsurge in the volume of new loans and loan balances. Each phase ends (and the next one begins) with either operating or bond costs rising. Average operating costs rose in the 1935-36 and 1945-46 periods. In both periods, operating expenses increased while loan balances declined. Expenses increased in the 1935-36 period because of delinquencies and repossessions. In 1945-46, the operating staff and facilities were expanded in preparation for an increased volume of business. In the third period, 1956-58, both bond interest and operating costs increased faster than the volume of business. Cal-Vet was a heavy borrower in the bond market when bond interest rates were rising, and more staff was required to handle the expanded volume of business.

In the 34-year period shown in Chart 7, average bond interest expense per loan dollar in force reached its highest point in 1930-31 (5.5 cents) and its lowest (2.0 cents) in 1951-52. Average operating expenses per loan dollar were highest in 1945-46 (2.0 cents) and lowest (0.4 cents) in 1929-30, with 0.5 cents as the most frequent value for the full period. Relatively, bond interest costs were least in 1947-48 when they accounted for about 60 percent of the 4.0 cents of total cost per loan dollar. They were highest in the 1930's when they accounted for about 90 percent of the 4.5 cents of total loan dollar costs.

CHART 7

CAL-VET BOND INTEREST AND OPERATING EXPENSES, 1924-58

CENTS PER  
LOAN DOLLAR  
OUTSTANDING



SOURCE- APPENDIX G, TABLE G-1

Cal-Vet administrators estimated that in 1957-58 a spread of 0.6 cents per loan dollar was needed between average bond interest expense and the interest rate charged Cal-Vet borrowers to cover operating expenses and to break even. The necessary spread has declined with the increase in the volume of business and is likely to decline further if the loan volume continues to increase and operating expenses are kept under control.<sup>12</sup>

### PRICING POLICIES

In spite of the periodic changes in costs, Cal-Vet administrators have encountered little difficulty in meeting the expenses of the program and in

TABLE 9  
CAL-VET'S SURPLUS AND LOAN BALANCES OUTSTANDING,  
1940-1960

Period <sup>1</sup>	Loan Balances Outstanding	Surplus	Surplus as a Percentage of Loan Balances Outstanding (percent)
1940.....	\$ 58,170,948	\$ 8,344,372	14.3
1945.....	35,959,359	10,912,831	30.3
1950.....	121,262,445	11,175,936	9.2
1960.....	1,061,056,777	20,715,408	1.9

<sup>1</sup> June 30 of each period.

SOURCE: Appendix D, Table D-2, and Appendix G, Table G-1.

accumulating a surplus. The flexible interest rate that may be charged borrowers provides management with a pricing device that relieves it of many financial and cost-control problems. Its pricing policy is chiefly one of raising or lowering the loan interest rate to cover operating costs and to yield a nominal surplus. When to raise or lower the interest rate is management's major pricing problem, however. Should Cal-Vet follow a short-run pricing policy, i.e., adjusting the rate to short-run changes in average cost, or a policy in which monthly, seasonal, or yearly averages are disregarded in favor of longer-run average costs?\*

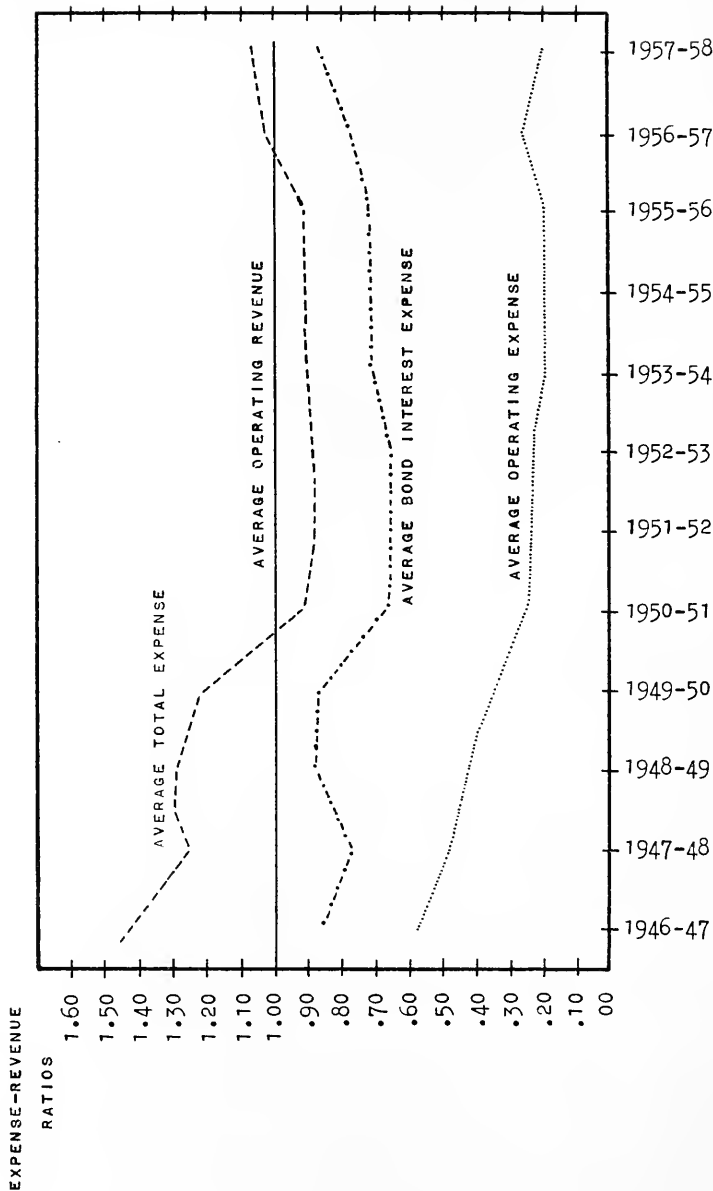
During the period from 1921 to 1945, Cal-Vet followed a long-run pricing policy. The interest rate remained at 5 percent and covered total average costs (bond interest and operating) in nearly every year in this period (Chart 7). Operating surplus increased gradually to 14 percent of loans in force by 1940 and to 30 percent in 1945 (Table 9).

During the post-World War II period, Cal-Vet appears to have adopted a more short-run type of pricing policy; the interest rates charged bor-

\* Marginal cost-marginal revenue pricing is inappropriate to this operation because any change in the interest rate charged borrowers is applicable to all contract holders and not solely to new borrowers, and the maximization of profits is not a goal of the program.

CHART 8

RATIO OF CAL-VET AVERAGE EXPENSES TO AVERAGE REVENUE, 1946-47 TO 1957-58<sup>1</sup>



<sup>1</sup> MISCELLANEOUS EXPENSES AND REVENUES ARE EXCLUDED.

rowers were changed frequently. Interest rates were changed three times between 1945 and 1960; from 5 percent to 3 to 3½ and to 4 percent in February 1960. The revenue-cost relationships in Charts 5 and 8 help to explain the reasons for the interest rate changes. The rate was dropped from 5 to 3 percent in 1945-46 primarily because average operating expenses, even though greater than average revenues, were falling so rapidly that a 5 percent rate would have yielded abnormally high additions to an already large surplus. As the program continued to expand in loan volume, even the 3 percent rate yielded operating profits and surpluses through 1956, although total surplus declined as a percentage of loan balances outstanding. From 1956 to 1959, however, average costs exceeded average revenues even with the rate increase to 3½ percent in 1957, because of increased bond interest expense and larger operating expenses incurred by the 1956-57 avalanche of new loan applications.

Cal-Vet's pricing policy since 1956 was more closely related to average interest costs on unredeemed bonds than to the market level of bond interest rates. The two rate increases after 1956 followed behind market interest rates on new bond issues, primarily because average bond interest rates lagged below market rates. However, on four occasions (two in 1957 and two in 1959) interest rates paid by Cal-Vet on new bond issues were greater than the 3½ percent Cal-Vet charged its borrowers (Appendix F, Table F-1). On such occasions, the public—notably lending agencies—exerted pressure on Cal-Vet management to increase its rates. When bond interest rates on new issues were falling, as occurred during much of the 1930's and 1940's, the public was not as concerned about lower rates for borrowers, and Cal-Vet had more freedom in maintaining the interest rate at 5 percent even though the program was accumulating a healthy surplus.

### SURPLUS POLICY

One of the paradoxes of the program is that it is not to be operated at a loss or profit to the State and yet prudent management dictates the accumulation of a surplus. How much of a surplus should Cal-Vet accumulate? Is its surplus adequate? The 1945 surplus of 30 percent of loans in force declined to less than 2 percent in 1960 (Table 9). No specific surplus standard is prescribed by law similar to the 5 percent loan reserve of total realty loan balances in force required of State-chartered savings and loan institutions.<sup>33</sup> As was noted earlier, Cal-Vet, without legislative directive, attempts to maintain a 3 percent liquid reserve of loans in force.

If Cal-Vet maintained a surplus of 5 percent of loan balances in force, its surplus would have amounted to more than \$50 million on June 30, 1960, as contrasted to the 1.9 percent or \$20.7 million reported. To have accumulated such a surplus, the interest rate should have been about 1 percent larger on the average after 1955-56, when the surplus account

first dropped below the 5 percent level, or operating expenses should have been cut sharply.

A higher interest rate would likely have dampened some of the demand that developed when lending terms were liberalized in 1956. Inasmuch as the monthly installment payment was computed at the 3 percent amortization rate prevailing in 1946, the impact of a higher interest rate on new demand would not have been too great. Most of the extra interest cost needed to increase surplus after 1956 would have been borne by existing contract holders rather than the new, and often marginal, borrowers who were obtaining larger loans with smaller downpayments. (This is another example of the way in which the law handicaps Cal-Vet in using the interest rate as a more effective pricing and rationing device.)

The added surplus obtained from participating veterans would have provided Cal-Vet with much needed loanable funds whether for new home loans, advances for improvements, or providing easier loan terms for low-income veterans. Also, surplus is frequently needed to offset periodic deficits. In case of liquidation of the program, the remaining surplus could be made available by the Legislature for other veterans' or public programs as compensation for the benefits derived from the State's credit support of the Cal-Vet program or, it could be returned to borrowers as was the accumulated administrative charge in 1945.

#### LIQUIDATING INDEBTEDNESS

Another test of solvency is the ability of the program to liquidate its \$1.15 billion of bonded indebtedness (as of June 30, 1960) without necessity of recourse to the State treasury. Price Waterhouse and Company, auditors for Cal-Vet, make annual projections of estimated future receipts and disbursements that could be anticipated if the program were liquidated. On the assumption that (a) no further loans and bond sales are made after June 30, 1960, (b) existing loans and bonds are paid off on schedule, (c) the loan interest rate remained at 4 percent per annum, and (d) other investments would yield 3 percent per annum, Price Waterhouse estimated that \$173 million in net assets (surplus, buildings and furnishings) would be accumulated by June, 1986, when the last bonds and loan contracts are scheduled to be paid (Appendix H, Table H-2).

Receipts during the 1960-86 period would be greater than total disbursements by about \$93 million. The major outlay would be for the redemption of bonds, as scheduled in Appendix H, Table H-3. From 1962 to 1971, disbursements would exceed receipts by more than \$75 million. If liquidation did occur, actual receipts and net assets would not be as large as forecast under the assumed conditions because loans are paid off faster than scheduled, and Cal-Vet would likely have to settle for less than a 4 percent return on its reserves.

Barring a severe and prolonged economic recession and assuming prudent management of Cal-Vet's affairs, the program appears to be in no danger of insolvency. It could absorb losses up to 17 percent of the more than \$1 billion loans outstanding in 1960 and remain solvent through 1986. This loss ratio would be far greater than that experienced by Cal-Vet in the depression of the Thirties.

### Allocating Loanable Funds

The second major financial management problem of Cal-Vet administrators is to allocate loanable funds uniformly over time and equitably among veterans. The eligibility aspects of this problem were discussed in the preceding chapter. Here we are concerned chiefly with the time and equity aspects of the allocation problem. Under what circumstances has the allocation of funds been a problem? Why did it become a problem? How was it handled?

#### REASONS FOR ALLOCATION PROBLEM

The allocation problem arose when funds became scarce either because of a shortage of funds resulting from the arrangement of bond sales or because of an unanticipated acceleration of demand.

*Shortage of funds.*—Prior to 1949, real fund shortages were quite common because the Legislature required that all previously approved funds had to be expended before new funds were authorized. While the annual volume of new loans was small, the fluctuations in the volume of new loans from year to year were quite large. For example, within a span of five years the volume of new loans fell from \$10 million in 1927–28 to less than \$3 million in 1929–30 and increased again to more than \$14 million in 1931–32 (Appendix D, Table D-2). Authorizations for the sale of new bonds were made about every four years, except for the ten lean years of 1933–43, and were relatively small—\$15 to \$25 million (see Appendix G, Table G-1). Bonds were sold as funds were needed. After all bonds were sold and loanable funds allocated, loan applications continued to be accepted and were accumulated until new bonds were authorized and sold. The sooner available funds were committed, the quicker new funds could be requested.

After 1949, the legislature granted bond sale authorizations in advance of the need for funds. Cal-Vet attempted to forecast its money needs for three years in advance, and bonds were sold twice a year to provide a regular flow of funds. Compared to the pre-1949 period, the amounts sold were larger and more varied in size reflecting the difficulty of forecasting in a period of accelerating demand and rising operating costs. The extent to which the supply of funds equalled the demand for funds depended on

(a) the accuracy of the forecast of need, and (b) the rate at which loans were approved in the Sacramento office. A faulty forecast could be compensated for by adjusting the rate at which loans were processed in the central office.

*Accelerated demand.*—Forecasting of future needs was made more difficult by the outbreak and impact of the Korean conflict. The \$100 million of bonds authorized by the Legislature in 1949 were intended to last until early 1952, but a new bond authorization was needed in 1951. The \$150 million in bonds so authorized were not approved by the voters until November 1952 and placed on sale in February 1953. In the meantime, the war-accelerated program exhausted available funds and the Legislature advanced \$55 million from the State's General Fund. As the Korean conflict drew to a close, the size and frequency of bond authorizations and sales were increased. After the maximum size of a veteran's home loan was increased from \$8,500 to \$15,000 in 1956, the shortage of funds relative to demand became particularly acute. Demand was further accentuated because the interest rate and installment payments remained at a comparatively low level. The result was a sizeable backlog of applications. The proceeds from the huge 1956 bond issue of \$500 million lasted only about two years. Rationing of funds through priorities, quotas, and other such devices, was utilized in an attempt to equitably distribute the available funds over time and among veterans.

#### RATIONING OF FUNDS

In 1956, the Legislature attempted to slow down and contain the onrush of demand for the more generous loans it had promised (Appendix C) by prescribing that priority was to be given to loan applications for smaller amounts. Six priority groups were established by the California Veterans Board with requests for loans of \$10,000 or less receiving first priority (Appendix B). Only applications in the first priority were to be processed until funds were assured for the second and subsequent priorities.

It became apparent almost immediately that many wounded and disabled veterans, entitled to preferential treatment from the inception of the Cal-Vet program, were being discriminated against by the priority regulations. This was corrected in September 1956: wounded and disabled veterans were granted top priority for loans up to the \$15,000 maximum.

The rationing experience showed, too, that (1) many deserving requests for loans of \$10,000 or more were being shunted aside because of the flood of applications for loans of lesser amounts; (2) many requests for loans of lesser amounts were for refinancing rather than home purchase, while others were from wealthier veterans buying expensive homes who could meet the large downpayments; and, (3) veterans in some districts were acquiring more than their fair share of the limited funds.

In late 1956 and early 1957, the Board altered the priority system by prescribing that loans should be processed in chronological order and that within each day's applications, priority should be given to loans for lesser amounts. The Legislature in 1957 discontinued the size-of-loan priority system altogether and ordered that loans should be processed in order of filing with wounded and disabled veterans receiving first consideration, and among other veterans those requesting loans for new purchases should be given priority over those requesting loans for refinancing.

In order to allocate funds more equitably throughout the State, Cal-Vet instituted district office quotas in May 1957. A quota for each district was established on the basis of (a) priority cards on hand, (b) historical volume of the office, (c) availability of staff, (d) number of working days in arrears, and, (e) the quota assigned a contiguous office.<sup>15</sup> A quota of 1,525 contracts per month was assigned the 17 district offices for May 1957, with the San Francisco and Oakland offices receiving the largest quotas because they were the furthest behind in processing applications and historically generated the largest volume of business. This quota produced too much business and was reduced to 1,020 loans per month for the period of June through November, 1957. It was raised to a level of 1,325 loans from December 1957 through February 1958 and 2,025 loans per month from March through June 1958.

The quota system was discontinued in July 1958. The long delays in granting loans discouraged applicants, and the 1958 Legislature removed some of the demand pressure by prohibiting loans for refinancing and for the acquisition of homes valued at more than \$25,000. The quota system was found difficult to administer and it accorded unequal treatment to like veterans. After mid-1958 and until September 1959, district offices were restricted to a percentage of loans processed in the prior three month's period. A quota system was reimposed in September 1959 and reconciled in early 1960 to the new loan commitment plan, which gave veterans actually buying a home preferential access to funds over those merely planning to buy. New quotas were based on the number of commitments issued but not honored in each district office.<sup>16</sup>

In retrospect, there is some question whether the hurried rationing attempts distributed funds more evenly over time and more equitably among veterans than if no such rationing had been attempted. On the other hand, the larger the Cal-Vet program, the greater the pressure on management to produce and process an even flow of business. The program can be operated more efficiently and at lower costs if loans are allocated evenly over time than if they are processed on a feast-and-famine basis. However, Cal-Vet can do this more effectively in the central office than it can by assigning quotas to district offices. Treating veterans equitably is a different problem.

Rationing on the basis of need, as determined by the size of loan requested, seemed to treat veterans more inequitably than equitably. Greater equity was restored when refinancing of loans was barred and a value limit was placed on homes financed by Cal-Vet. Other general limitations based on size of income and need for a home might have proved more effective and easier to administer. These general but more personal limitations would be best administered at the local level.

In the final analysis, the lack of loanable funds can be considered as one of the main causes of the rationing problem. Why were not more funds made available? What is the future prospect for loanable funds?

#### FUTURE AVAILABILITY OF LOANABLE FUNDS

Total investable funds, as of July 1, 1960, amounted to \$50 million from bonds sold in June, \$50 million remaining to be sold from the 1958 authorization, and a \$400 million new bond issue authorized by the voters in June, 1960, for a total of \$500 million. In addition, Cal-Vet had some \$42 million in liquid reserves on July 1, 1960, and was realizing about \$40 million per year of net reinvestable funds from contract prepayments and interest earnings.

During the 1959-60 fiscal year, Cal-Vet loaned nearly \$255 million on new contracts. At that rate of lending, the program is assured of investment funds to about March 1, 1963. The nature of the program beyond that date is uncertain. The State's voters approved a \$1.75 billion water bond financing proposal in the November, 1960 election. Schools and municipal districts are demanding more financial assistance from the State. The continued availability of abundant and inexpensive bond monies to Cal-Vet, as in the past, is in doubt. Cal-Vet no longer enjoys a privileged position as the principal user of the State's credit. Why is this so? What is the relationship of Cal-Vet bond financing to the State's bonded indebtedness? What impact has it had on the State's credit rating and financing costs? These and related questions are to be explored in the following chapter.

#### Summary

The Cal-Vet program has been self-liquidating and prudently managed. Nearly \$1.4 billion of bonds, of which more than 70 percent were sold between 1950 and 1960, have financed more than \$1.5 billion of loans. Bond interest costs have been Cal-Vet's chief cost of doing business. The Depression of the 1930's created repossession problems and some operating losses. Loan volumes were declining. A strong upsurge in demand occurred after World War II. A rapid expansion of personnel and facilities resulted in short-term operating losses.

Cal-Vet reduced contract interest rates between 1946 and 1956. Earned surpluses continued in spite of rising bond interest rates and operating costs because of growing loan volumes and lagging average bond costs. Rising costs and increasing bond redemptions necessitated a series of contract interest rate increases after 1956. Cal-Vet's earned surplus increased to more than \$20 million in 1960 but was decreasing as a percent of loan balances outstanding. If the program were liquidated beginning June 30, 1960, an estimated \$175 million of net assets would remain at its close in 1984.

The 1956 liberalization of loan amounts and terms produced an avalanche of loan applications. Extraordinarily large bond issues were inadequate to meet the demand for funds. Priorities, rationing, and quotas were utilized to distribute funds more equitably. Loan commitments were introduced in early 1960 to assure qualified veterans actually buying a home of eventual Cal-Vet financing. The shortage of loanable funds rather than of interested veterans remained the chief obstacle to a greater volume of Cal-Vet business.

## *Chapter IV*

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### **CAL-VET BOND FINANCING**

Bond financing, as was noted in the preceding chapter, is the financial key-stone in the Cal-Vet farm and home purchase program. More than 90 percent of all invested funds have come from bond sales, and bond interest has averaged more than 90 percent of the operating costs of the program. The frequency and amount of new bond issues largely determine the program's volume of loans. Bond redemption schedules, in turn, tend to fix such financial aspects of the program as purchase contract maturities, level of interest rates, and the reserve and investment policies for surplus funds.

The bonds issued are general obligation bonds of the State of California. They are serially numbered, fixed-interest rate-coupon bonds, bearing serial maturity dates. Some mature within a year of issue. Starting with Series "A," dated August 1, 1950, bonds maturing during the last five years of each issue are callable at par in whole or in part on any interest-bearing date at the option of the State. Beginning with Series "P," dated February 1, 1958, the longest maturity date was extended from 20 to 25 years. The bonds are exempt to all holders from Federal income taxes and from the California income tax.

As of June 30, 1960, of the \$1,835,000,000 Cal-Vet bonds authorized, \$1,385,000,000 had been sold and \$1,070,890,000 were outstanding. More than \$1 billion of these bonds have been issued since 1950. In 1950, bonds outstanding accounted for only 60 percent of the total issued. By June 1960, 85 percent of the total issued was outstanding. In other words, new issues have outpaced redemptions, and more and more of California's credit has been committed to the Cal-Vet program.

#### **Reactions to Cal-Vet Bond Financing**

The State's voters repeatedly have given strong approval to the creation of State general obligation debt on behalf of California veterans (Appendix I, Table I-1). Only during the economic-recession years of 1933, 1949, 1954,

1958, and 1960 did the voters' support diminish. The 1960 approval was the narrowest since 1933, chiefly because of the marked decline in the number of "yes" notes. New issues have received strong and united support of the State's veterans' organizations.<sup>1</sup> On the other hand, strong organized opposition did not emerge until 1956.

In 1956, the Los Angeles Chamber of Commerce recommended a "no" vote on the Veterans Bond Act of that year, and two years later it was joined by the San Francisco Chamber of Commerce and the California Taxpayers Association in opposition to the Veterans Bond Act of 1958.<sup>2</sup> They were joined by others against the 1960 Bond Act.<sup>3</sup> Excessive State indebtedness and rising bond financing costs were the opponents' chief concern. They challenged the proponents' argument that, because the program was self-liquidating, it was operated without cost to the State's taxpayers. An analysis of the facts should shed some light on these important questions: (1) What is the relationship of Cal-Vet bond financing to the State's indebtedness? (2) What is the effect of the Cal-Vet debt on the State's credit, and (3) How much, if anything, does it cost the State's taxpayers to finance the Cal-Vet program by means of general obligation bonds?

### Cal-Vet Bond Financing and the State's Public Debt

The impact of Cal-Vet bond financing on the State's economy and credit cannot be evaluated separately from other public financing programs and debts in the State. Local and State government agencies, for example, compete in the same broad money market for funds. Each draws repayment monies, usually from different revenue sources, but often from the same source, and many individuals and firms help pay for both local and State public programs.

#### HISTORICAL SIGNIFICANCE

The first Cal-Vet bonds were sold in April, 1924. By 1930, total Cal-Vet bonds outstanding amounted to \$28 million, which was about 3.5 percent of the \$838 million public bonded debt in the State. In the decade 1930-1940, Cal-Vet's debt increased only slightly faster than the total public debt and neither increased greatly. By mid-1959, the total public debt in the State was nearly \$6 billion (Table 10), and Cal-Vet's portion had increased to 16 percent.

The greatest rise in public debt occurred after 1950, with the debt of schools and special districts accounting for the largest absolute increase. Percentagewise, the debts of counties increased the most rapidly. The State's general obligation debt increased almost as rapidly as the total public debt, largely because of the Cal-Vet program and the State's special financing to stimulate public school construction.

TABLE 10  
 BONDED INDEBTEDNESS OF THE MAJOR POLITICAL DIVISIONS IN THE  
 STATE OF CALIFORNIA, 1940-41, 1950-51, AND 1958-59

	Fiscal Years		
	1940-41	1950-51	1958-59
	(thousands of dollars)		
Counties .....	25,089	7,013	75,157
Cities .....	487,554	650,660	1,309,068
School and special districts .....	219,939	634,098	2,637,729
State (general obligation bonds) .....	160,049	385,339	1,583,571
Total debt .....	892,631	1,677,210	5,635,525
Population .....	7,237,000	11,058,000	14,639,000
Per capita debt .....	\$125.00	\$160.00	\$385.00
Cal-Vet bonds (in thousands) .....	\$50,941	\$174,667	\$911,000
Cal-Vet bonds as a percent of total debt .....	5.5	10.4	16.0

SOURCES: California Statistical Abstract (Senate of the State of California, Sacramento, California, October 1958, pp. 197-203), and State Controller, State of California.

TABLE 11  
 INDEBTEDNESS OF STATE AND LOCAL GOVERNMENTS IN CALIFORNIA  
 AND ALL OTHER STATES, 1959

	Gross Debt Outstanding <sup>1</sup>			Net Long-term <sup>2</sup> Debt Outstanding
	Total	Long-term	Short-term	
<i>California</i>				
Total (millions of dollars) .....	\$ 6,036.2	\$ 5,983.2	\$ 53.0	\$ 4,913.1
Per capita .....	412.34	408.71	3.62	335.62
<i>All Other States</i>				
Total (millions of dollars) .....	58,073.4	44,143.8	2,929.6	51,448.3
Per capita .....	359.08	340.97	18.11	318.12

<sup>1</sup> At end of year.

<sup>2</sup> Gross long-term debt minus reserves held for retirement of long-term debt.

SOURCE: U. S. Department of Commerce, Bureau of the Census, *Government Finances in 1959*. September 30, 1960, p. 34.

At the end of 1959, the debt of all public bodies in California accounted for nearly 10 percent of the total gross debt outstanding of all state and local government units in the United States and about 9 percent of their net long-term debt outstanding (Table 11). California's net position was more favorable than its gross position because it was paying off, or holding in repayment reserves, a larger percentage of its total debt than was true of many other states. Over the years, however, California's total indebtedness has increased much more rapidly than that of most other states (Table 15). The State's population growth rate is among the highest in the nation, which means a greater need for schools, roads and other public services. From all indications, California governments will continue to be large net borrowers for years to come.

#### COMPETITION FOR BOND MONIES

Most capital expansion programs of public agencies are financed by selling bonds in a highly complex and competitive money market. The interest cost paid by the issuer reflects (a) general supply-demand conditions in the money market (b) competition among bond issues and issuers within a state, and (c) the issuer's credit standing.

*Competition between State and local issues.*—The impact of competition among governmental agencies in California for bond monies is dramatically illustrated by a series of events in the bond market in July and August of 1958. The following quotation from an internal report of the Los Angeles Chamber of Commerce constituted one of the cogent arguments used by the Chamber against the Veterans' Bond Act proposition appearing on the November 1958 ballot.

"On July 23 last [1958], the State of California sold \$100 million of veterans' bonds. The Government bond market was unsettled. The reception of the veterans' bonds was not good, and a substantial amount of these bonds backed up in the hands of the dealers. On August 5, the Los Angeles City School District sold \$40 million of bonds. And, owing to the back-up of the veterans' bonds, these school bonds also proved difficult to sell. A few days before the Los Angeles City \$21,500,000 bonds (\$15,500,000—airports; \$4,500,000—police facilities; \$1,500,000—library facilities) were sold on August 19, a New York banker suggested by telephone to a dealer in Los Angeles that the City sale should be postponed because of the undigested State and Los Angeles school bonds. At that time, approximately \$45 million of the State bonds were still in dealers' hands and about \$4.5 million of the school bonds were in dealers' hands. On Friday, August 15, the restricted prices on the State Bonds were removed [by the dealers] and the bonds immediately went from a 3.35% level on the long bonds to a 3.60% level, and on the following Monday, August 19, to a 3.65% level for the long bonds.

It was impossible for the City of Los Angeles to cancel its scheduled sale of bonds, even in the face of adverse market conditions, for two reasons: (1) money

was needed and (2) the City of Los Angeles could not afford to lose its place in line of the Los Angeles entities coming to the market between that time and November 15, due to sales scheduled about four weeks apart until then.

On August 19, Los Angeles City sold its \$21,500,000 of bonds. The one- to twenty-year maturities were sold at an interest cost of 3.40% and the one- to thirty-year maturities at an interest cost of 3.71%. As soon as the City bonds were sold, the price of the unsold school bonds was immediately cut [by the dealers] to adjust to the City bond prices. *The City interest rate of 3.71% was the highest paid by the City in more than 20 years.*

So not only are the State bonds selling at abnormally high yields, but the Los Angeles City school and Los Angeles City bonds likewise have been depressed in price by reason of the indigestion of the State of California bonds.

Today, California municipal bonds are the most congested section of the entire municipal bond market. We have more bonds out—more bonds backed up—and more bonds coming than any other state in the Union.”<sup>4</sup>

The Chamber’s statement, however, must be evaluated in the light of the rising yields on municipal bonds and the shifts in Federal monetary policies in that period. The rapidly rising yields (falling prices) on municipal bonds in July and August 1958 are clearly depicted in Chart 9. According to the Dow-Jones municipal bond index, yields rose from 3.07 to 3.57 between the first week in July and the end of August, and within the week of August 14–21, *The Bond Buyer’s* 20-bond municipal index went from 3.27 to 3.42 percent.<sup>5</sup>

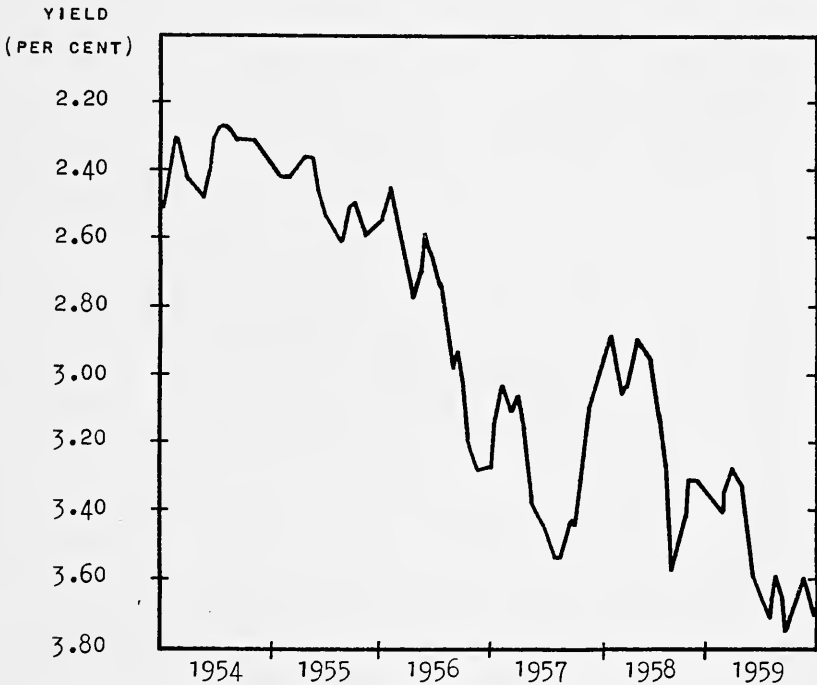
The steep decline in July and August bond prices is partly attributed to the speculation by investors in June on the \$9.5 billion Federal refinancing of maturing obligations. The new bonds carried a coupon rate of 2½ percent for 1965 maturities. Speculators purchased in anticipation of declining yields and rising prices. A large fiscal deficit, however, required additional sales of Federal securities. When speculators realized that prices were likely to fall they unloaded much of the 2½ issue on a weakening market.<sup>6</sup>

It was in this period of uncertainty that the Cal-Vet and two Los Angeles bond issues were placed on the market. The marketability and prices of the Los Angeles issues were no doubt affected by the “backed-up” Cal-Vet bonds. The particular market experience of these issues, however, cannot be attributed solely to an “over-supply” of California bonds. Furthermore, in view of rising bond yields, the impact of the July 1958 Cal-Vet bond issue on the sales and prices of the two Los Angeles issues is difficult to assess.

This was an inconclusive market experience, except for the opposition generated against the Cal-Vet program. What does a longer experience record reveal? More specifically, how is Cal-Vet’s bond financing related to the State’s total indebtedness and how does it affect the State’s credit rating and its costs of borrowing money?

*Competition for funds among State bond issues.*—The amount and composition of the State's general obligation debt outstanding in 1950 and 1960 is shown in Table 12. In 1960, self-liquidating bonds, of which Cal-Vet bonds are the largest amount, constituted about 57 percent of the State's general obligation debt. The largest percentage increase in the

CHART 9

DOW-JONES MUNICIPAL BOND YIELDS, MONTHLY, 1954-59<sup>1</sup><sup>1</sup> BONDS OF 20 YEAR MATURITIESSOURCE- "WEEK'S MARKET STATISTICS" BARRON'S, 1954-59

State's bonded indebtedness between 1950 and 1960 was for the financing of public school buildings. According to State law, support of the Public School System and the State University constitute the first charge on all State revenues. Service of the State debt is the second charge. After these two charges, all other general fund expenditures are on an equal footing.<sup>7</sup>

Because veterans' bonds are self-liquidating and monies advanced for public school building construction are being repaid, less than one-fourth of the debt service on general obligation bonds comes from the State's general revenue.<sup>8</sup> Thus, much of the debt repayment burden is assessed to those receiving specific and identifiable benefits.

The growing importance of the Cal-Vet bond financing program to the State's general indebtedness is indicated in Table 13. Cal-Vet debt amounted to only 32 percent of the total debt in 1940 but about 56 percent in 1960. The highest was 65 percent in 1949. The State's debt is increasing more rapidly than its bond repayment capacity which is generally based on the population's personal income or tangible wealth. The State's total

TABLE 12  
STATE OF CALIFORNIA GENERAL OBLIGATION BONDS OUTSTANDING,  
1950 AND 1960

	1950 <sup>1</sup>	1960 <sup>1</sup>
<i>General fund:</i>		
State and university buildings.....	\$ 7,670,000	\$ 4,570,000
State parks.....	1,750,000	.....
California 10th Olympiad.....	525,000	275,000
State highways.....	25,675,000	7,925,000
Public school buildings.....	50,000,000	599,200,000
Indian War, 1857-60.....	4,000	.....
State building construction program.....	.....	198,400,000
Total general fund.....	\$185,624,000	\$ 810,370,000
<i>Self-liquidating bonds:</i>		
San Francisco Harbor improvement fund.....	24,925,000	22,445,000
Veterans farm and home building fund.....	132,855,000	1,070,890,000
Total self-liquidating.....	\$157,780,000	\$1,093,335,000
Total general obligation debt.....	\$343,404,000	\$1,903,705,000

<sup>1</sup> As of June 30.  
SOURCE: State Controller, *Annual Reports*, State of California, Sacramento, California.

debt, including the self-liquidating Cal-Vet debt, amounted to 4.66 percent of personal income and 6.40 percent of the assessed value of all tangible property in 1959, nearly a four-fold rise since 1950 (Table 14). However, most economic units—household, business, and government—have experienced rising debt-to-asset ratios in the post-World War II period.

THE STATE'S DEBT

The \$1.90 billion in bonds outstanding in June 1960 is not the State's total debt commitment. As of July 1, 1960, some \$1.2 billion in authorized bonds were unsold.<sup>9</sup> In addition, in November 1960, the State's voters approved a \$1.75 billion bond issue for the development of the State's water resources.<sup>10</sup>

TABLE 13  
CAL-VET BONDS OUTSTANDING AS A PERCENTAGE OF THE  
STATE'S GENERAL OBLIGATION DEBT, 1940-1959

Fiscal Year <sup>1</sup>	Percent
1940.....	32.3
1941.....	31.8
1942.....	31.1
1943.....	30.3
1944.....	29.2
1945.....	28.0
1946.....	42.9
1947.....	45.9
1948.....	50.1
1949.....	64.6
1950.....	54.6
1951.....	45.3
1952.....	43.8
1953.....	48.8
1954.....	48.9
1955.....	50.7
1956.....	48.8
1957.....	54.6
1958.....	59.5
1959.....	57.9
1960.....	56.2

<sup>1</sup> Ending June 30.

SOURCE: State Controller, *Annual Reports*, State of California, Sacramento, California.

TABLE 14  
THE STATE'S GENERAL OBLIGATION DEBT OUTSTANDING AS A  
PERCENTAGE OF THE STATE'S PERSONAL INCOME AND ASSESSED  
VALUATION OF TANGIBLE PROPERTY, 1940-1959

Year <sup>1</sup>	Percentage of Personal Income <sup>1</sup>	Percentage of Assessed Value of Tangible Property <sup>2</sup>
1940.....	2.90	2.40
1941.....	2.20	2.20
1942.....	1.50	1.90
1943.....	1.00	1.70
1944.....	0.90	1.50
1945.....	0.70	1.30
1946.....	0.80	1.50
1947.....	0.80	1.20
1948.....	0.70	1.10
1949.....	1.00	1.30
1950.....	1.20	1.80
1951.....	1.70	2.60
1952.....	2.00	3.10
1953.....	2.40	3.60
1954.....	2.60	3.90
1955.....	2.50	3.80
1956.....	2.50	3.80
1957.....	3.00	4.30
1958.....	3.70	5.10
1959.....	4.66	6.40

<sup>1</sup> Calendar year for personal income, fiscal years (June 30) for general obligation bonds and assessed value of tangible property.

<sup>2</sup> Includes locally taxable state-assessed property but excludes the railroad rolling stock of companies other than railroads, which is subject to State property tax in lieu of local taxes.

SOURCES: General obligation debt: State Controller, *Annual Reports*, State of California; assessed value of tangible property: Board of Equalization, *Annual Reports*, State of California; Sacramento, California; and, personal income: United States Department of Commerce, *Survey of Current Business*, August issues.

The State's authorized but unissued debt of \$3 billion was nearly 60 percent larger than its debt outstanding. California's total and per capita debt seem destined to rise even faster than in the past decade and in comparison to that of most other states (Tables 15 and 16). While most other states have turned to non-guaranteed, long-term financing, which increased by more than 800 percent between 1950 and 1959, California

TABLE 15  
TYPE AND AMOUNT OF STATE DEBT, FOR ALL STATES AND CALIFORNIA,  
1950 AND 1959

Type of Debt	1950 <sup>1</sup> (\$000)	1959 <sup>1</sup> (\$000)	Change 1950 to 1959 (percent)
<i>All states</i>			
Total debt.....	5,246,276	16,929,769	223
Total long-term.....	5,128,502	16,421,154	220
full-faith.....	4,246,713	8,211,362	93
non-guaranteed.....	881,789	8,209,792	831
Total short-term.....	117,774	508,615	332
Net long-term.....	4,274,430	14,180,344	232
Net full-faith.....	<sup>2</sup>	6,240,376	...
<i>California</i>			
Total debt.....	263,372	1,711,997	550
Total long-term.....	263,372	1,711,997	550
full-faith.....	243,504	1,595,104	555
non-guaranteed.....	19,808	116,893	490
Total short-term.....	none	none	...
Net long-term.....	114,489	793,104	593
Net full-faith.....	<sup>2</sup>	677,636	...

<sup>1</sup> Fiscal years.

<sup>2</sup> Not available.

SOURCES: 1950 data: *Statistical Abstract of the United States* (Washington, D. C., U. S. Government Printing Office); 1959 data: U. S. Department of Commerce, Bureau of the Census, *Compendium of State Government Finances in 1959*, 1960, p. 38.

continued to rely chiefly on full-faith-and-credit bond financing, thereby pledging all of the State's resources for the repayment of its bonded indebtedness.

#### THE STATE'S CREDIT RATING

In spite of the State's large bonded indebtedness, the substantial backlog of unsold bonds, and anticipated future money needs greater than its past commitments, Moody's in late 1960 evidenced no great concern over the State's financial conditions, stating:

... State debt has been capably managed and should remain realistically related to California's diversified wealth and growth potential.<sup>11</sup>

TABLE 16  
PER CAPITA STATE DEBT, FOR ALL STATES AND CALIFORNIA,  
1950 AND 1959

Type of Debt	1950 <sup>1</sup> (dollars)	1959 <sup>1</sup> (dollars)	Change 1950 to 1959 (percent)
<i>All states</i>			
Total debt.....	34.81	96.45	177
Total long-term.....	34.03	93.55	175
full-faith.....	28.18	46.78	66
non-guaranteed.....	5.85	46.77	699
Total short-term.....	.78	2.89	270
Net long-term.....	28.36	80.78	185
<i>California</i>			
Total debt.....	24.88	116.94	370
Total long-term.....	24.88	116.94	370
full-faith.....	23.00	108.96	374
non-guaranteed.....	1.87	7.98	327
Total short-term.....	none	none	...
Net long-term.....	10.81	54.18	401

<sup>1</sup> Fiscal years.

SOURCES: Computed from data presented in Table 15, and on population estimates from U. S. Department of Commerce, Bureau of Census, *Current Population Reports*, Series P-25, No. 210, December 27, 1959.

California's credit rating has declined, however, since the early years of this century when its total indebtedness was less than \$100 million. A review of *Moody's Municipal and Government Manuals* shows that California's general obligation bond ratings since 1919 are as follows:

1919-1934—Aaa  
1935-1939—Aa  
1940 —A  
1941-1960—Aa

These quality ratings are assigned by Moody's experts largely on the basis of the "probable future performance of bonds over the long term."<sup>12</sup> The current (1960) Aa rating classifies California bonds as of relatively high quality among state and municipal bonds.

Nevertheless, it must be noted that yields on the State's 20-year bonds in 1958-59 were more nearly those of Moody's A-rated municipal bonds (Table 17). In earlier years, California bonds, though rated Aa, often sold close to the Aaa yields.\* This shift in yield pattern has been associated

\* The reader is cautioned that the yield comparisons are between new California bond issues and old issues in the Moody's ratings. The same applies to the California-Dow-Jones comparisons presented in Table 20. There is reason to believe that the yields on new bond issues are slightly above the yields on old issues of comparable class and

with the sharp increase in bond issues. In 1958 and 1959, the State issued \$657.5 million of general obligation bonds which in December 1959 accounted for about 40 percent of total bonds outstanding. Of the \$657.5 million, \$400 million were for the Cal-Vet program.

TABLE 17  
COMPARISON OF YIELDS<sup>1</sup> ON CALIFORNIA 20-YEAR STATE BONDS WITH MOODY'S  
MUNICIPAL A AND Aa LONG-TERM BONDS, 1954-60

California Bond Sales		Yields on State of California 20-year Bonds	Yields on Moody's A Long-term Bonds <sup>2</sup>	Yields on Moody's Aa Long-term Bonds <sup>2</sup>
Date	Amount (millions)			
1/13/54.....	50	2.10	2.79	2.28
4/21/54.....	50	2.30	2.67	2.26
1/ 5/55.....	60	2.20	2.55	2.23
4/27/55.....	30	2.10	2.57	2.26
11/ 2/55.....	60	2.20	2.69	2.31
2/29/56.....	30	2.35	2.73	2.40
6/13/56.....	50	2.35	2.74	2.58
10/ 3/56.....	35	2.65	3.21	2.93
1/16/57.....	85	3.25	3.64	3.24
4/24/57.....	80	3.40	3.43	3.15
7/24/57.....	50	3.55	3.73	3.41
10/23/57.....	85	3.60	3.78	3.50
1/22/58.....	100	3.00	3.18	2.94
4/23/58.....	100	3.05	3.17	3.00
7/23/59.....	100	3.25	3.24	3.03
12/ 3/58.....	100	3.55	3.68	3.35
3/11/59.....	100	3.55	3.55	3.23
6/10/59.....	100	3.70	3.90	3.64
9/10/59.....	50	3.95	3.99	3.77
10/21/59.....	7.5	3.55	3.96	3.71

<sup>1</sup> Moody's Yields are monthly averages; State yields are on the date of sale.

<sup>2</sup> Bonds included are: Boston, Mass. 19-yr. 3's; Chicago, Ill. 15-yr. 3¼'s; Detroit, Mich. 21-yr. 3's; New York City 25-yr. 3¼'s; Philadelphia 20-yr. 3¼'s.

<sup>3</sup> Bonds included are: Baltimore, Md. 20-yr. 3¼'s; California 20-yr. 3's; Columbus, Ohio 20-yr. 2½'s; Kansas City, Mo. 20-yr. 2.70's; and Massachusetts 20-yr. 3.90's.

Sources: Moody's bonds; *Moody's Bond Survey*, Moody's Investors Service, New York, New York; yields on California bonds computed from syndicates' sale offerings of bonds as advertised in *The Wall Street Journal*.

The State's bond-cost experience in the 1958-59 period raises the question: Can the State market \$100 million of bonds or more every 90 days, as it attempted to do in 1958-59 and as it must do to meet its projected future needs, at no higher than Aa bond rates? There is reason to believe that

maturity in order to assure quick saleability. It is assumed that the yield spread between new and old bond issues remains fairly constant over time. Hence, the diverging yield relationships between California and Moody's-Dow-Jones indices presented herein retain their validity for the period under study.

future money needs of the State may require interest rates exceeding those on Aa bonds.<sup>13</sup> Before attempting to measure the interest-cost-effects of the State's large-scale bond financing, and of Cal-Vet bond financing in particular, it is necessary to examine another cost determinant, namely the cost of marketing State bonds.

### Marketing State Bonds

All State bonds, including Cal-Vet bonds, are marketed in the national securities market. The State's cost of advertising bond sales, printing the bonds, and similar operations is minor and, in the case of Cal-Vet, is met from the revenue of the Cal-Vet program. The major costs to the State are determined not only by investors' alternative yields from competitive securities but also by the methods of selling and the degree of competition in marketing the bonds.

#### METHODS OF SALE

No California bonds are advertised for sale until they are authorized by the Legislature and approved by an outside firm of attorneys and by the people at a general election. The issuance of Cal-Vet bonds must also be approved by the Veterans Finance Committee. The State Treasurer establishes the order of priority of all State bonds to be sold, the amounts to be sold, and the frequency of the sales. As the money needs of the State have increased, so have the amounts and frequency of sales; in some cases, bonds are sold at the same time for different public purposes (Appendix J, Table J-1).

Before 1949, the Cal-Vet Bond Acts required that the bonds be offered for sale at a public auction. After 1949, the Bond Acts permitted either public auction or sealed bid sales; the latter has been used exclusively since. Who are the bond buyers?

#### BOND BUYERS

State bonds are sold to the bidder offering the lowest net-interest rate to the State. The State may reject the lowest bid but has yet to do so.<sup>14</sup> The bidders are generally commercial banks and investment houses that form syndicated partnerships for the purpose of underwriting the purchase and resale of each new bond issue. The number of firms joining a bidding syndicate depends largely on the size of the issue. The July 1958 sale of \$100 million of Cal-Vet bonds, for example, had more than 300 firms participating in the bidding syndicate.<sup>15</sup> On the other hand, seven syndicates, each comprised of a few firms, bid on the October 1959 issue of \$7.5 million (Table 18). One firm or possibly two act as managers or co-managers of the syndicate. Between January 1957, when the offering

jumped to \$85 million, and October 1959, only one bid was received for each of 11 successive new bond sales. The single-bidder syndicates have been managed jointly by the Bank of America, representing Western investment firms, and The Bankers Trust, representing Eastern firms.

TABLE 18

STATE BOND SALES, DATE, AMOUNT, CAL-VET'S SHARE, DEALERS' GROSS SALES MARGIN, AND NUMBER OF BIDDERS, 1954-60

California Bond Sales		Cal-Vet's Share (millions of dollars)	Approximate Gross Sales Margin (dollars per \$1,000 bond)	Number of Bidders
Date	Amount (millions of dollars)			
1/13/54.....	50	50	7.74	2
4/21/54.....	50	none	10.66	2
1/ 5/55.....	60	60	10.67	2
4/27/55.....	30	30	8.36	3
11/ 2/55.....	60	30	10.40	2
2/29/56.....	30	none	11.65	3
6/13/56.....	50	50	8.80	2
10/ 3/56.....	35	35	10.64	2
1/16/57.....	85	50	15.77	1
4/24/57.....	80	50	19.03	1
7/24/57.....	50	50	17.35	1
10/23/57.....	85	50	18.80	1
1/22/58.....	100	100	16.07	1
4/23/58.....	100	50	17.70	1
7/23/58.....	100	100	16.50	1
12/ 3/58.....	100	none	17.40	1
3/11/59.....	100	5)	17.66	1
6/10/59.....	100	100	13.09	1
9/10/59.....	50	none	17.85	1
10/21/59.....	7.5	none	11.86	7
Total.....	1,322.5	855.0		

SOURCES: Gross sales margin calculated from syndicates' sale offerings of bonds as advertised in *The Wall Street Journal*, see Appendix J, Table J-1 and Table 19 for examples; remainder of data from the State Treasurer, State of California, Sacramento, California.

The average price to the public, to which all members of the syndicate must adhere by agreement, has ranged from .7 to 1.9 percent per bond dollar above the price paid (Table 18). Approximately one-half of this gross margin is paid to the dealers selling the bonds. Expenses of the syndicate are paid from the other half of the gross profit. The remainder, if any, is distributed to the syndicate members in proportion to their underwriting share. If the syndicate suffers a loss, it is shared on the same basis as is a profit.

## PRICING OF STATE BONDS

The pricing of California bonds today is a complex and highly sophisticated procedure compared to the method employed 20 years ago when the State's bond issues were small and infrequent. The common practice then was for the State to predetermine an interest rate for the whole issue of varying maturities.<sup>16</sup> Bidding was by auction, and the price offered was usually above par since the predetermined rate was set sufficiently high to bring forth a premium. The manager of Cal-Vet's program in those years writes:

"The Bond Act at that time [prior to World War II] required that the bonds be offered for sale at public auction. I can recall that in a number of instances there were five or six bidders whose representatives bid orally against each other. Since all coupons bore a predetermined interest rate, the bids were for par plus a premium. As the bidding continued, bidders dropped out until it narrowed down to one or two. At this point, the two surviving syndicates would merge and offer one bid, rather than to keep bidding against each other."<sup>17</sup>

Since 1949, the net interest cost to the State has been determined by the successful syndicate's bid. After State officials announce the dollar amounts to mature each year, the bidding syndicate does the pricing in the customary manner. First, the syndicate estimates the market yield of each maturity, which must be competitive with bonds of like maturity and quality in order to assure a quick sale. From these data an average yield can be computed. Then, the syndicate must determine how much of an underwriting spread or gross margin it needs or can obtain for marketing the bonds. This margin per bond added to the average yield determines the State's gross interest cost which, plus or minus a discount or premium, sets the State's average net interest cost for the issue.

Next, coupon rates are assigned each maturity so that the spread between the State's average net interest cost and the average yield to the public will yield the desired gross margin. (Bond dealers have found it advantageous to offer investors a variety of coupon rates for large issues in order to broaden the market.<sup>18</sup>) Finally, the dollar selling price to the public is determined for each bond, which applied to the coupon rate produces the desired yield. If the price is below par the yield will be above the coupon rate; if the price is above par the yield will be below the coupon rate. Dealers attempt to keep the selling price near par chiefly to meet the needs of large, conservative investment funds (commercial banks, insurance companies, bank trust departments, and so forth). Generally, dealers earn the largest gross margin on the more popular short-term bonds. The price to the public averages out above par in order to yield the syndicate its desired gross margin, which covers its members' marketing costs and profits.

In the illustration shown in Table 19, the veterans' bonds brought a 100.047 bid and a net interest cost to Cal-Vet of 3.554 percent.<sup>19</sup> The bonds were sold to the public at an average price of 101.747, or a gross average yield of something less than 3.5 percent. The transaction produced an estimated gross profit of 1.7 percent per bond dollar, or \$17 per \$1,000 bond, for the syndicate. The gross marketing margin on the \$50 million issue was \$850,000.

#### MARKETING MARGINS

Is a \$17 per bond gross margin high or low? An analysis of gross marketing margins for all major State bond issues between January 1954 and January 1960 indicates that the average gross margin for the 20 sales was \$14.93 per bond. The range, however, was from \$7.74 to \$19.03 with a median of about \$10.00 (Table 18).

Closer study shows that a major increase in bond marketing margins occurred with the January 1957 issue. A total of \$957.5 million in bonds was sold in 12 issues between January 1957 and January 1960 at an average gross margin approximating \$16.86 per bond. In the three years between January 1954 and January 1957, only 8 issues were offered for sale. They averaged about \$37.5 million per issue, and the dealers grossed only \$9.85 per bond as an average marketing margin.<sup>20</sup>

Why the wide difference in gross marketing margins for bonds sold in the 1954-57 and the 1957-60 periods? Three factors seem important. First, during the 1957-60 period all State and municipal bond offerings were substantially larger and faced greater competition in the money markets from other securities than in the earlier period. Second, the magnitude and frequency of the California issues after 1957 lowered the State's standing in the investment market, which was reflected in the higher yields asked (Tables 17 and 20). Portfolio holdings of California State bonds increased from about \$900 million in January 1957 to more than \$1.7 billion in January 1960. California's bonds were more difficult to sell than in the preceding three year period and dealers assumed more risks and costs in selling the bonds.<sup>21</sup> Third, except for the small October 1959 issue, each bond issue in 1957, 1958 and 1959 was sold to a single-bidder syndicate. The marketing margins for the \$372.5 million of bonds sold to multiple bidders from 1954 to 1960 averaged \$9.89 per \$1,000 bond. On the other hand, the margins for the \$950 million of bonds sold to single bidders in the 1957-1959 period averaged \$16.90 per bond. In view of the obviously higher marketing margins for bonds sold to single bidders, a logical question seems to be: To what extent were the larger average margins in the 1957-60 period a product of monopoly pricing—an inflexible supply of bonds sold to a single bidder?<sup>22</sup>

A charge of monopoly pricing might be inferred from such empirical

evidence as (a) in every case the yield on new California bonds sold on single bids exceeded the yield on Dow-Jones bonds and (b) the \$7 difference in average margins between multiple and single bids, but the evi-

TABLE 19  
COUPON RATES, SELLING PRICES AND YIELDS OF \$50 MILLION OF  
CAL-VET BONDS SOLD ON MARCH 12, 1959

Maturity Date	Coupon Rate	Yield at Maturity	Selling Price of Par <sup>1</sup>
1960.....	5	1.90	104.31
1961.....	5	2.20	106.55
1962.....	5	2.45	108.31
1963.....	5	2.70	109.51
1964.....	5	2.80	110.98
1965.....	5	2.85	112.52
1966.....	5	2.90	113.92
1967.....	4	3.00	107.39
1968.....	3¼	3.10	101.22
1969.....	3¼	3.20	100.44
1970.....	3¼	3.25	100.00
1971.....	3¼	3.25	100.00
1972.....	3¼	3.30	99.46
1973.....	3¼	3.35	98.86
1974.....	3½	3.45	100.59
1975.....	3½	3.50	100.00
1976.....	3½	3.50	100.00
1977.....	3½	3.50	100.00
1978.....	3½	3.50	100.00
1979.....	3½	3.55	99.28
1980.....	3½	3.55	99.25
1981.....	3½	3.60	98.47
1982.....	3½	3.60	98.42
1983.....	3½	3.60	98.38
1984.....	3½	3.60	98.34
		Average	101.747

<sup>1</sup> Par is a \$1,000 bond.  
SOURCE: Appendix J, Table J-1, and *Executives' Bond Values* (Boston: Financial Publishing House, 1947).

dence is inadequate to prove the charge.<sup>22a</sup> More conclusive evidence, such as gross marketing margins for non-California municipal bonds sold to multiple bidders in the same period as the single-bidder California bonds were sold, is not readily available.<sup>23</sup> Inasmuch as smaller margins were associated with more bidders one might conclude that the State would have paid lower rates if it had offered bonds more frequently and in smaller quantities to attract more bidders.

In the final analysis, bonds costs to the State are determined by many factors, chiefly (a) money market conditions at the time the bonds are issued, (b) the size and maturity date of the issue, (c) the amount of California bonds outstanding and their impact on the State's credit standing, (d) the quantity of competitive offerings on the market, and (e) the number of bidders.

TABLE 20

COMPARISON OF YIELDS ON NEW 20-YEAR CALIFORNIA STATE BONDS AND 20-YEAR DOW-JONES MUNICIPAL BONDS, 1954-60

Date of State Bond Sale	Yields on New California State Bonds (percent)	Yields on Dow-Jones <sup>1</sup> Municipal Bonds (percent)	Spread Between State Bond and Dow-Jones Yields (percent)
1/13/54.....	2.10	2.48	— .38
4/21/54.....	2.30	2.44	— .14
1/ 5/55.....	2.20	2.38	— .18
4/27/55.....	2.10	2.37	— .27
11/ 2/55.....	2.20	2.47	— .27
2/29/56.....	2.35	2.50	— .15
6/13/56.....	2.35	2.56	— .21
10/ 3/56.....	2.85	2.93	— .08
1/16/57.....	3.25	3.22	+ .03
4/24/57.....	3.40	3.27	+ .13
7/24/57.....	3.55	3.45	+ .10
10/23/57.....	3.60	3.43	+ .17
1/22/58.....	3.00	2.82	+ .18
4/23/58.....	3.05	2.86	+ .19
7/23/58.....	3.25	3.11	+ .14
12/ 3/58.....	3.55	3.31	+ .24
3/11/59.....	3.55	3.31	+ .24
6/10/59.....	3.90	3.68	+ .22
9/10/59.....	3.95	3.81	+ .14
10/21/59.....	3.55	3.60	— .05

<sup>1</sup> Dow-Jones yields are for the first Monday after the sale, and are based on what the bonds of 20 state and city governments would yield if all matured in 20 years. The data are obtained weekly by *The Wall Street Journal* from dealers in non-Federal government securities.

SOURCE: *The Wall Street Journal*.

### Cost of Cal-Vet Bonds to the State

Without question the large volume of California bonds issued since 1957 has lowered California's credit standing and increased its costs of new bond financing. Can these extra costs be measured? A natural division for measuring cost differences appeared in January 1957. Between January 1954 and January 1957, bond yields on new California bonds were substantially below the Dow-Jones municipal bond yields, and they rose above the Dow-Jones averages after January 1957 (Table 20).<sup>\*</sup> The aver-

<sup>\*</sup> *The Bond Buyer's* municipal 20-bond index produced almost the same results as did the Dow-Jones municipal 20-bond index.

age spread in yields between California 20-year bonds and the Dow-Jones bonds was -.2163 points for the \$365 million of California bonds sold between January 1954 and January 1957. The average yield spread was +.1686 for the \$957.5 million of bonds sold in the three year period after January 1957. Thus, the average added interest cost to the State in the post-January 1957 period was roughly .38 percent per annum. Converted to dollars, .38 percent means an added interest cost of \$3.80 per \$1,000 bond per year or nearly \$3.5 million per year for 20 years.

Applying the same technique to gross marketing margins, we find that from January 1957 to January 1960 gross margins averaged \$7.01 per \$1,000 bond more than for the bonds sold in the January 1954-January 1957 period. Slightly more than 950,000 bonds in \$1,000 denominations were sold by the State between January 1957 and January 1960, for which the added cost of marketing amounted to nearly \$6.7 million.

How much of these extra costs can be attributed to Cal-Vet? Conceivably, 100 percent of the added costs could be assigned to the Cal-Vet program. There is reason to believe that California's bond costs would be no higher and possibly lower than the average of Dow-Jones municipal bond yields if the Cal-Vet program were not a general obligation debt of the State.

Inasmuch as Cal-Vet accounted for about 65 percent of all bonds issued between January 1954 and January 1960, and for about 60 percent of all bonds outstanding, Cal-Vet borrowers may be said to bear 60-65 percent of the added bond costs, or about \$2.2 million per year for 20 years for extra interest costs and \$4.2 million for added marketing costs. Taxpayers paying off school, State building, and other general obligation bonds would be considered to bear the rest.

The arithmetic, however, does not tell the whole story. All State bond borrowings contributed to the added financing costs, and attribution of these costs is exceedingly difficult. The Cal-Vet program is perhaps more vulnerable to critical appraisal than are other programs because (a) it is such a large user of funds, (b) its benefits accrue to a small percentage of the people in the State, and (c) it performs a financing function that conceivably could be performed by private enterprise.

But judgment along this line should be withheld pending an appraisal of the Cal-Vet program's contribution to housing and mortgage financing in the State and to the housing and financing of veterans. These subjects will be covered in the next two chapters.

### Summary

Cal-Vet is California's largest public borrower of funds, accounting for nearly 60 percent of the State's general obligation debt, and for 16 percent of the total bonded indebtedness of the State's major political divisions in

1959. The State's credit standing, as reflected in bond interest costs, has declined and there is little likelihood of its near-term improvement in view of the State's anticipated capital spending. Capital spending has been increasing at a faster rate than personal incomes or the value of taxable property.

Whatever evidence could be brought to bear on the question of the impact of Cal-Vet on the financial position of the State indicates that the Cal-Vet program accounts for the largest share of increased bond interest and marketing costs. There is strong reason to believe that it contributes to increased costs of financing new schools and other public improvements at the local level, which means higher taxes for bond interest payments.

## *Chapter V*

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### THE PROGRAM'S ROLE IN THE HOUSING AND MORTGAGE MARKETS

The continuous growth of Cal-Vet since 1921, as expressed in the number and volume of farm and home loans outstanding, suggests that the program has made a substantial contribution to housing in California and continues to be an important means of financing home ownership. How significant is Cal-Vet as a housing program? How much of the mortgage funds does it provide? Does it stimulate the demand for home ownership? How does it compare in magnitude and benefits to the Federal veterans home-loan program in California? What is the attitude of private lending institutions, home builders, and realtors to the program?

#### **Residential Construction and Sales**

Perhaps the most significant measure of Cal-Vet's importance to the State is its share of annual new home construction and residential sales. The Cal-Vet home construction program was begun in 1949, and has amounted to less than 8 percent of total Cal-Vet loans. Cal-Vet's contribution to new home construction in California (Table 21) is less than might be expected in view of its over-all growth. Its share of the State's new home construction has remained at 1 percent or less in terms of number and value but increased significantly after 1956 when the maximum home loan limit was liberalized. Cal-Vet finances the construction of single, custom-built homes and no tract home building. This is the chief reason for its small contribution to new home construction.

Except for 1956, residential sales data for the State are inadequate or not available for comparison. It has been estimated that slightly more than 300,000 single-family homes were sold in California in 1956.<sup>1</sup> In the same year, Cal-Vet approved the purchase of 10,376 single-family homes, or about 3.5 percent of all single-family homes sold.

Inasmuch as Cal-Vet is restricted to single-family homes, is there any correlation between the inventory of single-family homes and Cal-Vet activity? The data in Table 22 suggests that there is little correlation between the inventory changes of single-family dwelling units and Cal-Vet's lending activity. Cal-Vet loans increased more rapidly than did the inventory in the 1930's, less than in the 1940's, and probably more than in the 1950's. The number of single-family dwelling units in the State, however, has not increased as rapidly as the total housing supply, which

TABLE 21

CAL-VET'S FINANCING OF NEW HOME CONSTRUCTION COMPARED TO THE AUTHORIZED CONSTRUCTION OF SINGLE-FAMILY DWELLING UNITS IN CALIFORNIA, 1954-1959

Year	Cal-Vet Financing of New Home Construction		Authorized Construction <sup>1</sup> of Single-Family Dwelling Units in California		Cal-Vet Construction as a Percentage of New Dwelling Units Authorized	
	(number)	(value)	(number)	(\$000)	(number)	(value)
1954....	501	\$ 4,175,144	160,983	\$1,505,818	.31	.28
1955....	372	3,107,869	179,554	1,835,439	.27	.17
1956....	296	2,799,417	138,654	1,560,946	.21	.18
1957....	798	10,035,190	112,167	1,329,393	.71	.75
1958....	1,128	15,428,917	124,688	1,538,806	.90	1.00
1959....	1,286	17,680,527	155,883	1,989,822	.82	.89

<sup>1</sup> Authorized by local building permits in California.

SOURCES: Cal-Vet from monthly reports of the Division of Farm and Home Purchases, Department of Veterans Affairs; authorized dwelling units from the United States Department of Labor, Bureau of Labor Statistics, Washington 25, D. C.

means that Cal-Vet is active in a relatively diminishing segment of the housing market. Cal-Vet's share in this segment of the housing market is not as great as might be inferred from the large inventory of single-family dwelling units and the growth of the program.

On the other hand, Cal-Vet has contributed to the increase of home ownership. In 1920, some 900,000 families occupied 778,861 dwelling units in the State,<sup>2</sup> of which 43.7 percent were owner-occupied. More families than housing units indicates the housing shortage of the post-World War I period and one of the reasons why the Cal-Vet program was brought into being.

The 1960 census<sup>3</sup> showed that of the 4,981,024 dwelling units, 58 percent, or 2,909,408 were owner-occupied. The percentage of single-family homes occupied by owners was no doubt much higher. The increase in home ownership from 1920 to 1960 has been accompanied by an increase in home mortgage debt. Only 16 percent of all California nonfarm homes were mortgaged in 1920.<sup>4</sup> Some 51 percent of all owner-occupied dwelling units were mortgaged in 1940.<sup>5</sup> Similar statistics for 1960 are not available

but there is reason to believe that at least 60 percent of all owner-occupied California nonfarm homes were mortgaged in 1960.<sup>6</sup> What is Cal-Vet's share of this increased mortgage activity? Has it increased or decreased relative to other lenders?

### The Residential Mortgage Market

The creation of the Cal-Vet program was justified on the grounds that, in addition to rewarding veterans and helping to alleviate the housing

TABLE 22

THE NUMBER OF AND PERCENTAGE INCREASES IN NEW CAL-VET LOANS AND SINGLE-FAMILY DWELLING UNITS IN CALIFORNIA, BY DECADES, 1930 TO 1960

Decade	Increase in Cal-Vet Home and Farm Loans <sup>1</sup> (number)	Increase over Preceding Decade (percent)	Increase in Single-Family Dwelling Units (number)	Increase over Preceding Decade (percent)
1920-30.....	7,536 <sup>2</sup>	....	593,334 <sup>3</sup>	....
1930-40.....	11,510	52.7	288,448	-51.4
1940-50.....	22,627	96.6	836,006	189.8
1950-60.....	122,527	419.5	N. A.	N. A.

<sup>1</sup> It is assumed that most farms purchased with Cal-Vet financing had single-family homes on them. Farm loans accounted for less than 2 percent of all loans through June 20, 1960.

<sup>2</sup> Cal-Vet's first loans were made in 1921 so the total does not represent a full decade's volume.

<sup>3</sup> An estimate based on roughly 740,000 single-family dwelling units in existence in 1920.

SOURCES: Cal-Vet data from Division of Farm and Home Purchases, Department of Veteran Affairs, Sacramento, California. Single-family dwelling units from Bureau of Census, Department of Commerce decennial census reports of population and housing.

shortage, mortgage money for veterans was inadequate in terms of what they could afford to pay. Short-term, relatively high-interest, single-payment, residential loans were the rule in the 1920's.

Cal-Vet was among the early pioneers of the long-term, amortized mortgage in the United States, which became a standard offering in the 1930's with the reorganization of the mortgage lending industry and the creation of the Federal Housing Administration. The success of the Cal-Vet program was instrumental, in large measure, for the establishment of the nationwide Federal veterans home-loan guaranty program in 1944. The Federal program gave California veterans a wider choice of home-loan sources and relieved Cal-Vet of much pressure, but on the other hand, added a new competitive factor.

By law, Cal-Vet is prevented from competing in the general housing market. All other residential lending institutions can and do provide home financing for veterans eligible for the Cal-Vet loan. Cal-Vet's market is fairly large, however. An estimated 30 percent of the approximately 4,500,000 family heads in the State are eligible veterans.

## RELATIONSHIP TO MORTGAGES OUTSTANDING

Based on Census and Cal-Vet data for the decennial periods of 1940, 1950, and an estimate for 1960, Cal-Vet's share of the number of mortgages outstanding for all nonfarm owner-occupied dwelling units increased from about 4.7 percent in 1940 to 6.4 percent in 1960 (Table 23). This increase suggests that in relation to other lenders Cal-Vet was either (a) granting loans more rapidly, (b) issuing more smaller-sized loans, (c) permitting

TABLE 23

NUMBER OF CAL-VET HOME LOANS OUTSTANDING AS A PERCENTAGE OF MORTGAGED, OWNER-OCCUPIED, URBAN AND RURAL NONFARM DWELLINGS  
IN CALIFORNIA, 1940-1960

Year	Cal-Vet Loans Outstanding <sup>1</sup> (number)	Mortgaged, Owner-occupied Nonfarm Dwellings in California (number)	Cal-Vet Loans in Relation to Total Mortgaged Dwellings (percent)
1940.....	18,971	404,907	4.7
1950.....	41,598	825,931	5.0
1960.....	111,499	1,745,400 <sup>2</sup>	6.4 <sup>2</sup>

<sup>1</sup> Includes both home and farm loans, the latter accounts for about 2 percent of the number of loans written. Separate data on farm and home loans outstanding are not available.

<sup>2</sup> Estimate based on the assumption that 60 percent of all California owner-occupied nonfarm housing units in 1960 were mortgaged.

SOURCE: Cal-Vet data from Department of Veteran Affairs, Sacramento, California. Mortgaged dwelling data, 1940: U. S. Department of Commerce, Bureau of the Census, 16th Census of the United States, 1940, *Housing*, Second Series, General Characteristics, California (Washington, D. C., U. S. Government Printing Office, 1942), pp. 2 and 7; 1950: *Idem*, *United States Census of Housing: 1950, General Characteristics, California* (Washington, D. C., Government Printing Office, 1952), pp. 5-15; 1960.

longer maturities, or (d) receiving loan repayments at a slower rate. An analysis of annual statewide mortgage activities may help to explain the nature of Cal-Vet's lending activities in relation to other lenders.

## RELATIONSHIP TO TOTAL NONFARM MORTGAGES

An indication of Cal-Vet's relative position in the home mortgage market in California from 1939 to 1959 is presented in Table 24. A study of the annual data and ratios suggests two conclusions. First, since World War II, Cal-Vet has become relatively more important as a source of home loan credit, in terms of dollar amounts. Second, Cal-Vet's yearly home mortgage financing has fluctuated more widely than the estimated total volume of mortgage lending. For every \$1 of other recorded nonfarm mortgages, Cal-Vet's loan amounts have ranged from a trace during the World War II years to a maximum of 4.3 cents in 1957.\*

The volume of new mortgage financing in California, as reflected in

\* The unit, recorded nonfarm mortgages, has certain weaknesses as a standard of measurement. These weaknesses are noted in a footnote in Table 24.

annual mortgage recordings, increased steadily after 1945 and reached more than \$6 billion in 1959. Cal-Vet's lending increased, too, but not as steadily or consistently.

TABLE 24  
COMPARISON OF AMOUNT OF CAL-VET HOME LOANS TO RECORDED  
NONFARM MORTGAGES OF \$20,000 OR LESS IN CALIFORNIA, 1939-1959

Year	Recorded Nonfarm Mortgages of \$20,000 or less in California <sup>1</sup>	Cal-Vet Home Loans	Cal-Vet Home Loans to Total Nonfarm Mortgages Recorded <sup>2</sup> (cents)
	(thousands of dollars)		
1939.....	517,553	1,263	0.2
1940.....	560,802	1,629	0.3
1941.....	619,076	112	<sup>3</sup>
1942.....	487,182	98	<sup>3</sup>
1943.....	580,625	94	<sup>3</sup>
1944.....	771,901	532	<sup>3</sup>
1945.....	911,853	1,474	0.2
1946.....	1,758,648	28,466	1.6
1947.....	1,965,254	14,325	0.7
1948.....	1,747,523	23,733	1.4
1949.....	1,627,320	40,827	2.5
1950.....	2,391,965	62,311	2.6
1951.....	2,455,313	53,713	2.2
1952.....	2,633,057	69,196	2.6
1953.....	3,005,347	74,785	2.5
1954.....	3,436,417	78,333	2.2
1955.....	4,776,009	69,319	1.4
1956.....	4,951,751	95,642	1.9
1957.....	4,548,987	195,276	4.3
1958.....	5,045,354	212,800	4.2
1959.....	6,612,512	254,321	3.8

<sup>1</sup> The number of recorded nonfarm mortgages is not a precise measure of home lending activity: some mortgages may not be recorded; a time gap between lending and recording may occur; many home purchases are financed with more than one mortgage; in later years many home mortgages have exceeded \$20,000; contracts of sale such as Cal-Vet loans, are excluded; and so forth. For further qualifications see *Savings & Home Financing Source Book, 1956*, Federal Home Loan Bank Board, Washington, D.C., p. 38.

<sup>2</sup> Expressed as a ratio because Cal-Vet loans are contracts of purchase and are not recorded as mortgages.

<sup>3</sup> Less than 1/10 of a cent.

SOURCES: Nonfarm mortgage data from Federal Savings and Loan Insurance Corporation, Federal Home Loan Bank Board, Washington, D. C.; Cal-Vet data from Division of Farm and Home Purchases, Department of Veterans Affairs, Sacramento, California.

Cal-Vet's erratic performance from year to year is related to both the demand for and the supply of Cal-Vet funds, but primarily to the latter. Through World War II, the demand was primarily from World War I veterans whose aggregate need for home loan assistance diminished with the passing years. In the years immediately following World War II, the demand for loans rose phenomenally and the availability of Cal-Vet funds lagged behind. The relative decline in Cal-Vet's activity in the 1954-56

period can be attributed largely to its unfavorable lending terms, as will be noted shortly, compared to the terms of conventional, FHA, and VA home loans. Cal-Vet's share in the mortgage market increased sharply after its lending terms were liberalized in 1956.

Was Cal-Vet's performance over time any different than that of its government-sponsored competitors, the Federal Housing and Veterans Administration programs? Did they complement each other or rise and fall together?

#### RELATIONSHIP TO FHA AND VA ACTIVITY

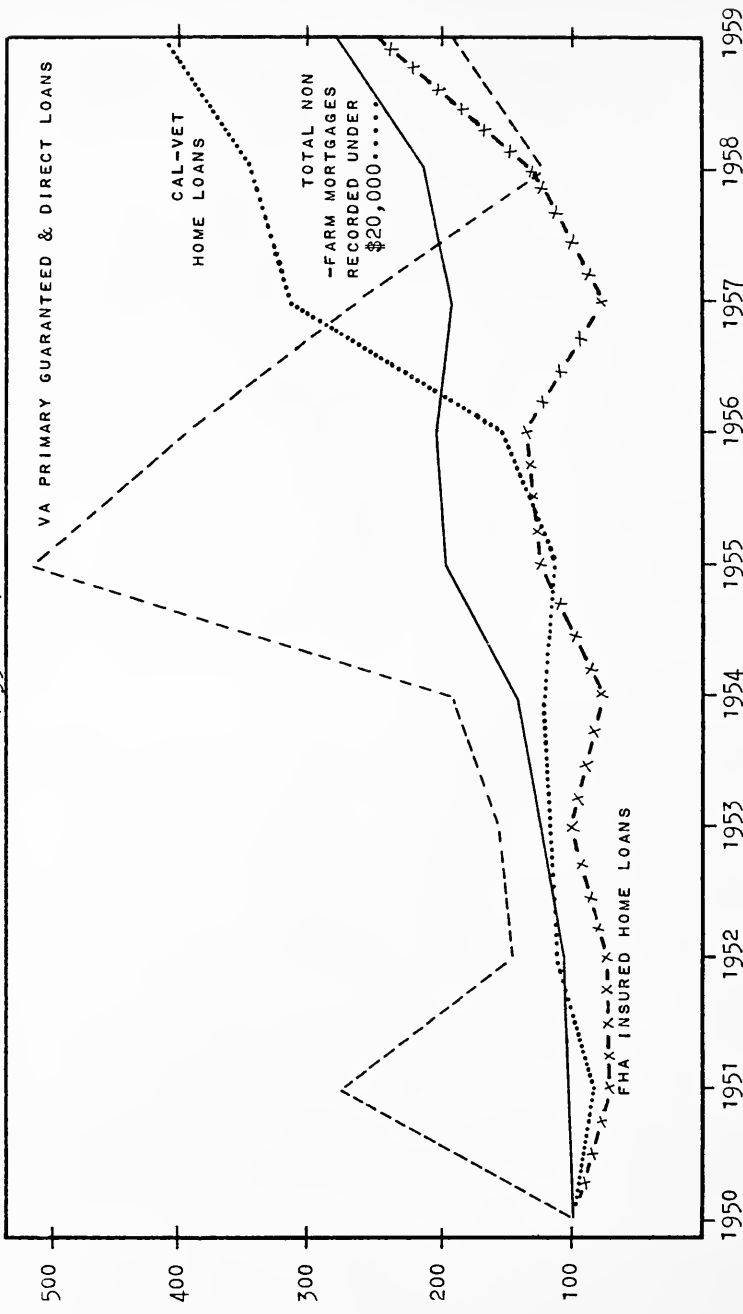
Cal-Vet's relative position in California among government-sponsored lending programs is presented in Chart 10 and Appendix K, Table K-1 for the 1950-1959 period. Together,<sup>7</sup> the three government-sponsored home-loan programs have performed rather erratically in California since 1950.<sup>8</sup> In 1951, they accounted for 41.5 percent of all recorded nonfarm mortgages of \$20,000 or less in contrast to only 19.5 percent in 1958. Borrowers resorted to other loans when government-sponsored loan programs faltered, which occurred at frequent intervals. Conventional and other loans, on the average, furnished more than two-thirds of all mortgage money during the 1950-59 period.

The major and most erratic fluctuations occurred in the Veterans Administration loans (in guaranteed more than in direct loans; Appendix L, Tables L-1 and L-2). Federal Housing Administration loan volumes fluctuated too, but more rhythmically—a low volume every third year (Chart 10).

Cal-Vet, the smallest of the three programs, exhibited the most stable performance of the three until 1955, although its share of the California housing mortgage market was on the decline from 1953 to 1956. The dramatic increase in its loan volume beginning in 1956 suggests that the State legislature over-liberalized Cal-Vet's lending terms in relation to those of other programs.

As might be expected, there appears to be more of a cross-effect relationship between Cal-Vet and VA loans than between Cal-Vet and FHA. The Cal-Vet-VA relationship is an inverse one. When the volume of VA loans increased, for example in 1951 and in 1955, Cal-Vet's share of the market declined. When VA loans declined in 1952 and from 1955 on, Cal-Vet's market position expanded. With respect to supply of funds, the two programs have tended to complement each other to the benefit of veterans. Because of the difference in size of the programs, a change in VA lending terms has a much greater impact on the demand for Cal-Vet funds than vice versa. Should the Veterans Administration loan-guaranty programs be terminated,<sup>9</sup> added demand pressure would be exerted on Cal-Vet to accommodate eligible veterans who had not obtained a VA loan. On the

CHART 10  
CHANGES IN THE DOLLAR VOLUME OF HOME LOANS IN CALIFORNIA, BY FHA VA & CAL-VET, 1950-59  
(1950=100)



other hand, termination of the Cal-Vet program would not exert nearly as much demand pressure on the VA program.

An analysis of the two veterans' programs may help to explain the extent to which the programs are competitive and complementary.

### Comparison of the VA and Cal-Vet Programs

There is no need to recite the details of the two programs. The history and characteristics of the Cal-Vet program were treated earlier (Chapter II), and similar information for the Veterans Administration's home-loan program is available in a number of publications.<sup>10</sup> The important features of both programs, as of August 1958, may be studied in Appendix A. The Veterans Administration's direct home-lending program closely parallels Cal-Vet's program in nearly all respects. Unless otherwise indicated, the material that follows compares Cal-Vet's program to the much larger Veterans Administration loan-guaranty program.

The extent to which the two programs are substitutes or complements rests largely on four features: (1) eligibility of veterans; (2) methods of financing; (3) eligibility of properties; and (4) lending terms.

### ELIGIBILITY OF VETERANS

While Cal-Vet is available to veterans of World War I, World War II, and the Korean conflict, the Federal program is restricted to veterans of the last two wars. A veteran born in or entering service from California may be eligible for both home-loan programs, and many such veterans undoubtedly have used both in successive home purchases. The exact number is unknown.

The Veterans Administration reports 1,763,000 veterans of World War II and the Korean conflict residing in California as of June 30, 1958, and 577,500 guaranteed and direct loans outstanding in California at the end of 1958.<sup>11</sup> An additional 113,635 loans had been repaid by the end of 1958. In other words, slightly more than 40 percent\* of the eligible veterans in California were using or had used the Federal program. This is a much higher percentage than the 12 percent of eligible veterans who had used the Cal-Vet loan through 1959. The 40 percent is also higher than the estimated national average of about 35 percent of nearly 20 million eligible veterans purchasing homes with aid of the VA program.<sup>12</sup>

The combined VA-Cal-Vet participation rate of eligible veterans is above 50 percent in California. However, allowance needs to be made for double-counting of veterans using both programs, the numerical accuracy of the veterans' population, and the 2 percent of World War I veterans in the Cal-Vet total. Even so, the California percentage appears to be sig-

\* This percentage is no doubt low because of the continuing net inflow of veterans into California.

nificantly higher than the national average of 35 percent. Why the difference in view of the comparative disadvantage of VA interest rates in the high-interest state of California? The presence of both programs may have shifted demand in favor of the veterans' programs. The influx of population and veterans may have stimulated relatively more new home construction, particularly tract building. The veterans moving to and residing in California may have needed more financial help to buy a home.

#### METHOD OF FINANCING

The greater popularity of the Federal over the Cal-Vet program in California can be traced, in part, to its availability from more sources. Nearly every community has a financial institution eligible to make a VA home loan. This is in contrast to only 17 Cal-Vet lending offices in the State. On the other hand, the lending decision on a VA loan is controlled by the private lender who is responsive to the profit motive and market forces. The Cal-Vet lending decision, made by State employees, is more responsive to the intent of the State legislature than to the forces of a free market.

In 1950, the federal Veterans Administration was authorized to make direct loans up to \$10,000 per dwelling (later increased to \$13,500) in areas where guaranteed financing was considered inadequate. The United States Congress, in 1960, extended the direct lending (and guaranteed) program to July 25, 1962.<sup>13</sup> The program is relatively small in California (Appendix L, Table L-2).

#### ELIGIBILITY OF PROPERTIES

With respect to eligibility of properties, two major differences between the State and Federal programs should be noted. First, the Federal program finances the purchase of a greater variety of dwelling units. Second, it has financed relatively more new dwelling units, during and after construction, than the Cal-Vet program. Roughly 80 percent of all Veterans Administration home loans in California have been made on new dwellings. The Veterans Administration program has given much greater support in California to new home construction and less to the existing home market than it has nationally. For example, in 1959, VA-guaranteed new home loans were 36.8 percent greater in California than in 1947-49, compared to 11.9 percent for the nation as a whole. On the other hand, the 1959 guaranteed loans on existing dwellings were only 15.1 percent of the 1947-49 volume in California and 37.6 percent for the United States.<sup>14</sup> These figures show that in California the VA program mainly has become a vehicle for tract financing.

In contrast, less than 8 percent of Cal-Vet's yearly home loans have been home construction loans (Appendix D, Table D-2). In 1956-57, about 30 percent of all Cal-Vet home loans were on houses under 1 year of age;

in 1959, with relaxed lending terms in effect, the new home loans increased to about 45 percent (Appendix M, Table M-4). These percentages reflect the more normal relationship between old and new home purchases which is about 2 to 1. Cal-Vet, in other words, has given relatively, and in recent years, absolutely more support to the used housing market than the Federal program, while the Federal program has favored new home builders and buyers. Is this a reflection of veterans' preferences or of lending terms and practices? This question remains to be examined.

#### COMPARISON OF LENDING TERMS

It has been determined that the Federal program has an advantage over the Cal-Vet program in terms of number of eligible veterans, number of financing sources, and types of eligible properties. In respect to lending terms, the comparative advantage is not as easily ascertained because of their complexity and their variability over time. Such terms as size of down payment required, maximum loan limit, length of loan maturity and interest rate rarely have been identical for the two programs.

Except for a period from July 1955 to April 1958, when a 2 percent minimum down payment was imposed, down payments have not been required by VA.<sup>15</sup> Otherwise, any down payments paid by veterans have been required at the discretion of private lenders, by the Federal National Mortgage Association as a condition for purchasing VA contracts, and by the credit restrictions incorporated in the Defense Production Act of 1950.<sup>16</sup> VA no-down payment loans have fluctuated from 60 percent of all VA-guaranteed loans in the 1944-46 period to about 3 percent in 1952, up again to about 45 percent in 1955,<sup>17</sup> down to a low of 2 percent in 1958,<sup>18</sup> and back to about 50 percent in 1960.<sup>19</sup> New home buyers have received better VA-guaranteed terms than have buyers of existing homes. In calendar 1959, for example, the average purchase price nationally of a VA-financed new home was \$13,933 and the average down payment was \$450 (a 97 percent loan-to-purchase price ratio). The average purchase price nationally of existing homes was \$12,400 with \$1,250 as the average down payment (a 90 percent loan-to-purchase price ratio).<sup>20</sup> Home purchase prices were higher in California; the average VA-guaranteed loan was \$15,080 in 1959 (Appendix L, Table L-1).

Cal-Vet, on the other hand, required a 5 percent administrative loading charge to 1945. In addition, it obtained a 5 percent initial payment. The initial payment was eliminated in 1949, if the appraised value of the home exceeded the loan amount by 10 percent, and 5 percent after 1957. Inasmuch as the loan amount ought not be more than 95 percent of the appraised value of the property, a minimum of 5 percent cash from the veteran is always required. The average price paid by a Cal-Vet for a home in 1959 was \$16,407 and the average loan was \$12,860—a loan-to-purchase

price ratio of 78.4 percent (Table 32).<sup>21</sup> On balance, it appears that the Cal-Vet program has required more initial equity than has the VA program of its borrowers.<sup>22</sup> On the other hand, Cal-Vet has offered greater constancy and stability in its down payment requirements.

With respect to maximum loan limits, the VA program has allowed more flexibility than the Cal-Vet program. VA uses "reasonable value" as the maximum allowable purchase price. Loan amounts below the maximum are determined by the private lender, except that VA indirectly establishes loan limits by (a) specifying a maximum loan guarantee, and (b) requiring that the veteran's monthly installment payments be reasonable in relation to his income. The maximum VA loan guarantee that began at 50 percent of the loan but no more than \$2,000 in 1944 has been 60 percent of the loan but not more than \$7,500 since 1950.<sup>23</sup> Cal-Vet's maximum home loan limit began at \$5,000 in 1921 and has been \$15,000 since 1956 (Appendix B). Furthermore, Cal-Vet, except for a short period in 1957-58, has imposed a limit to the price of the home allowed to be purchased, which in 1960 was an appraised price of no more than \$25,000. No such specific limit has been imposed on VA borrowers.

Borrowers under the federal program have been favored, too, by longer allowable loan maturities, which began at 20 years in 1944 and were extended to 30 years in 1950. During the last half of 1955 the maximum term was lowered to 25 years. The maximum loan maturity for the Cal-Vet program has remained at 20 years, except for the extensions associated with the inclusion of insurance premiums and with higher interest rates for new and old properties alike. Long-term VA-guaranteed loans in the United States (26 to 30 years) have varied from a low of 5 percent of all VA loans in 1952 to a high of nearly 90 percent in 1960. However, only 26.4 percent of the 1960-guaranteed loans on existing homes carried 26-30 year terms while 93.8 percent of VA-guaranteed loans on new homes were 26-30 year maturities.<sup>24</sup> Lengthened maturities have been employed to offset the impact of higher home prices and interest rates on veterans' monthly installment payments. Cal-Vet has not varied the maturity date to raise or lower monthly installment payments.

The one lending term favoring Cal-Vet over VA borrowers is the interest rate (Table 25). Except in 1944 and 1945, the Cal-Vet contract interest rate has been below the maximum allowable VA rate by 1 percentage point or more. A lower interest rate means lower marginal and total interest costs on a loan of a given size and maturity. Any interest rate change, however, is applicable to all Cal-Vet loans outstanding whereas under the VA program any change in interest rates applies only to new borrowers. Cal-Vet's interest cost advantage may be offset by VA's longer maturity, which in spite of higher interest rates, can produce a smaller monthly installment payment per \$1,000 loan. Except for the 1945-50 period, Cal-Vet has

operated at a disadvantage in terms of the size of monthly installment payments per \$1,000 loan. A smaller monthly outlay for housing allows the money saved to be spent for other uses; in other words, the substitution of other goods for housing.

The comparison and analysis are complicated by the fact that (a) since 1946, the Cal-Vet monthly instalment payments have not changed in response to interest rate changes, and (b) the VA interest rate may not be

TABLE 25

MONTHLY INSTALMENT PAYMENTS REQUIRED TO AMORTIZE A \$1,000, 20-YEAR CAL-VET LOAN AND THE MAXIMUM (20- OR 30-YEAR) VA LOANS AT CONTRACT INTEREST RATES PREVAILING FROM 1944 TO 1960

Period	Interest Rate		Monthly Instalment Payments on a \$1,000 Loan		Cal-Vet Payments as a Multiple of VA Instalment Payments
	Cal-Vet (percent)	VA (percent)	Cal-Vet <sup>1</sup> 20 Yr. (dollars)	VA 20 Yr. - 30 Yr. (dollars)	
1944.....	5	4	\$6.60	\$6.06	1.09
1945.....	4	4	6.06	6.06	1.00
1946-50.....	3	4	5.55	6.06	.91
1950-53.....	3	4	5.55	4.78	1.16
1953-mid 1955.....	3	4.5	5.55	5.07	1.09
mid 1955-1956.....	3	4.5	5.55	5.56 <sup>2</sup>	.99
1956-1957.....	3.5	4.5	5.55	5.07	1.09
1958-mid 1959.....	3.5	4.75	5.55	5.22	1.06
mid 1959-1960.....	3.5	5.25	5.55	5.53	1.003
1960-.....	4.0	5.25	5.55	5.53	1.003

<sup>1</sup> Fixed at \$5.55 since 1946; a 3.5 percent contract rate (1957 to 1960) extends 20-year contract maturities to about 21.5 years; a 4 percent rate extends 20-year maturities to 23 years.

<sup>2</sup> From mid 1955 to mid 1956, the VA maximum term was 25 years.

SOURCES: Cal-Vet, Table 5; VA, *Annual Reports*, Administrator of Veterans Affairs (Washington, D. C., Government Printing Office).

the true effective rate to veterans because of permissible discounts on VA mortgages.<sup>25</sup>

Cal-Vet's monthly instalment payments were computed at the rate of \$5.55 per \$1,000 loan from 1946 to 1961. A 4 percent, 20-year loan amortizes out at \$6.06 monthly but by retaining the fixed \$5.55 payment contract maturities are extended from 20 to 23 years. Cal-Vet's 23-year, 4 percent loans and VA's 30-year, 5½ percent loans produce virtually the same instalment payment per \$1,000.

The fixed VA interest rates complicate comparisons, too. If the rates lag behind market rates, the market equilibrates the two by means of discounts (selling the mortgage below its face value) and/or by raising the selling prices of homes. Under such circumstances, monthly instalment payments will rise and VA's economic advantage over Cal-Vet is reduced or eliminated.

After the 1951 accord between the United States Treasury and the Board of Governors of the Federal Reserve System, which allowed the money market to determine interest rates, the controlled VA (and FHA) interest rates tended to lag behind the market interest rates.<sup>26</sup> The lagging contract interest rates on marketed VA mortgages were adjusted upwards by means of the discounting process. Also, the Federal National Mortgage Association proceeded to purchase VA-guaranteed loans in large volume when private mortgage lending institutions found VA yields to be unattractive. Without the FNMA the flow of funds to the Federal veterans program would have been considerably reduced. As a secondary source of funds, FNMA has been substituted for a flexible interest rate.<sup>27</sup> Cal-Vet does not have a secondary market, such as FNMA, where it may dispose of its contracts and obtain extra loanable funds.

#### CAL-VET AS AN IMPORTER OF INVESTMENT CAPITAL

Cal-Vet's contribution to home financing in California should be appraised from another and broader aspect. California is a net importer of investment capital, which flows from the Eastern to the Western states largely in response to higher interest rates.<sup>28</sup> Savings and loan associations in California attract non-resident investors. The Home Loan Bank System issues securities in the national capital markets and loans much of the proceeds to savings and loan associations in capital-deficit areas. Western mortgage companies originate mortgage loans as correspondents for Eastern insurance companies and mutual savings banks. California's shortage of investment capital for housing is evident, too, by the growing volume of second trust-deed financing, particularly since 1950, which indicates a strong demand for mortgage money relative to its supply.<sup>29</sup> FNMA reports that California and Texas account for nearly one-third of its secondary financing business.<sup>30</sup> Most of FNMA's money for purchasing California mortgages comes from outside the State of California.

Cal-Vet, by means of bond sales, brings into the State a sizeable, though undeterminable,<sup>31</sup> amount of investment capital and at less cost to the final borrower than if private sources imported the funds. Although the funds imported are specifically earmarked for farm and home purchases, the imports release other loanable funds for use elsewhere. The importation of capital helps to lower interest rates in the State. This Cal-Vet benefit was of greater importance in the past than in recent years when so many other mortgage lenders in the State had access to outside funds.

#### Trade Reaction to the Cal-Vet Program

Little tangible evidence is available with respect to the attitudes of private lenders, home builders, and real estate operators toward the Cal-Vet program. Records of legislative debates on the Cal-Vet program have

not been preserved. A few transcripts of legislative hearings are available but generally only proponents of the program have testified at these hearings.<sup>32</sup> To obtain supplemental data, letters of inquiry were sent to interested trade associations.

Most financial institutions in the State are against the program. It is known that at the outset of the program, commercial bankers were openly skeptical of Cal-Vet's long-term amortized loans. Such skepticism was dispelled long ago. Refinancing was a major issue in 1956-58 (Chapter II) and was prohibited by the Legislature in 1958. Much of the Cal-Vet home-loan business in the pre-1956 period, when loan limits were restricted to \$8,500 per dwelling unit, involved the refinancing of existing and more expensive loans with lower-cost Cal-Vet loans. The relatively low loan limits forced many veterans to use other purchase loans, which some refinanced when the balance came within Cal-Vet's loan limit.

A representative of the California Savings and Loan League, replying to the writer's mail inquiry, stated that the Cal-Vet program was not intended to be competitive and for that reason the refinancing of existing loans should not be a part of the program. He added, "It would appear from where we sit that the use of the State credit in financing homes for individuals has been overextended."<sup>33</sup> Whether private lenders suffered financially from such refinancing is problematical, particularly in the post-World War II period of rising interest rates. The money from paid-off mortgages could be invested easily and more profitably in new higher-interest loans. By providing new funds for new loans, Cal-Vet performed a modified type of secondary financing for the private lenders. To the extent that it absorbed existing low-interest rate loans of private lenders, Cal-Vet was perhaps less competitive when allowed to refinance than after the refinancing ban when loan limits were increased to \$15,000 and its activity was restricted to new original loans only.

A representative of a home building group, responding to the writer's inquiry, was most emphatic in his approval of the Cal-Vet program, stating, in part,

"The Cal-Vet program is a most vital part of the over-all financing requirements of home building in California and this industry is taking full advantage of its benefits . . . The important thing when you're growing as we are, is to get enough money to do the job."<sup>34</sup>

The Cal-Vet program benefits home builders indirectly more than directly. As was indicated earlier, less than 10 percent of its loans are home construction loans and all of these are for single dwellings built to a veteran's specifications. Cal-Vet does not finance tract construction of homes. Cal-Vet, therefore, is much more of an aid to the small custom builder than to the large operative or speculative builder. Operative tract builders,

however, avail themselves of the Cal-Vet program for the sale of completed homes when it is to their advantage to do so. This usually occurs when other financing is in short supply.

Real estate brokers seem to be largely indifferent to the program. In general, realtors prefer conventional to government-sponsored financing. Less paper work and faster processing of loan applications mean quicker sales. Because of the uncertainties and delays in the Cal-Vet program, there is reason to believe that realtors tend to bring many eligible veterans in contact with alternate methods of financing.<sup>35</sup>

Because of the inherent nature of its enterprise, Cal-Vet does not actively solicit business. The veteran must take the initiative in locating a home acceptable to himself and to Cal-Vet and in filing an application, evidence of eligibility, and a purchase agreement signed by the buyer and seller. Before a change of policy in May, 1960,<sup>36</sup> Cal-Vet delayed its appraisal until loan funds were available. Under normal conditions an escrow of 60 to 90 days was adequate to complete the sale. When Cal-Vet had a backlog of applications—the usual situation after 1956—the veteran and the seller might have to wait six months or more before a qualifying appraisal was made and Cal-Vet approved the purchase.<sup>37</sup> Hence, the veteran desiring to purchase a particular property had to be prepared to acquire it by an alternate financial arrangement, involving a larger down payment, contract of purchase, second mortgage, accelerated monthly payments, interim financing, or renting with an option to buy. If an interim financial arrangement was recorded prior to filing a priority application, Cal-Vet could not purchase the property. The 1958 refinancing ban stipulated that Cal-Vet was not allowed to purchase a property in which the veteran had an interest of record.

There is reason to believe that the time lag and uncertainty of eventual purchase deterred many veterans from using the Cal-Vet loan. Those resorting to interim financing had to consider the possibility of being denied a loan.<sup>38</sup> If Cal-Vet refused to purchase a property, the veteran had to be in a position to (a) withdraw from the interim financial agreement without serious loss or (b) purchase the property without the Cal-Vet loan. In other words, many of the veterans who waited out a Cal-Vet loan were in a financial position to buy the property with or without Cal-Vet's assistance.

Realizing that its certification system prolonged a veteran's anxiety and financial dilemma, especially as loanable funds became more scarce, Cal-Vet began issuing loan commitments in May 1960. The plan was to grant a loan commitment to a qualified veteran upon prompt appraisal and acceptance of the submitted property by Cal-Vet. It permitted a veteran to acquire interim financing with the assurance of eventual purchase of the property by Cal-Vet. The plan was immediately effective,

however, only in the loan offices without a backlog of applications. Where a backlog existed, a new applicant had to wait until prior applications were processed.

In the final analysis, the availability of loanable funds remains the chief determinant of how many veterans can acquire Cal-Vet loans with or without a loan commitment. More loan commitments cannot be issued than can be honored with loanable funds. The new loan commitment policy is likely to increase the aggregate demand for Cal-Vet loans. Many veterans will be encouraged to wait for Cal-Vet financing who might otherwise seek home financing elsewhere.

### Summary

In this chapter we have explored Cal-Vet's share of home construction and financing in California. Though growing, its annual share has not been large. Single-family homes are diminishing in relative importance as a type of housing and hence, in capital requirements. Cal-Vet's share of total mortgage debt outstanding has increased to more than 6 percent, which suggests that Cal-Vet loans, though smaller on the average, are not paid off as rapidly as are conventional or other loans. Cal-Vet discourages speculative buying, and rising interest rates and other housing costs tend to retard pay-offs.

We have noted, too, Cal-Vet's advantages and disadvantages relative to the Federal VA program. Marginal and total interest costs favor the Cal-Vet program because of lower contract interest rates, larger down payments, and shorter maturities. Longer loan maturities give VA borrowers the advantage of lower monthly instalment payments per loan dollar. Cal-Vet terms tend to favor buyers of existing homes while VA terms favor new home buyers. The two programs complement each other in many ways and together they have provided substantially more home financing for California veterans than has been provided to veterans in other states.

Related and competitive trade groups, except builders, are more likely to oppose than to favor the program. Its greatest benefit to those groups is an indirect one arising from the importation of investment capital.

We have yet to examine a significant aspect of the program: What kind of homes do Cal-Vets buy? What are the personal and financial characteristics of Cal-Vet home buyers? These and related questions are treated in the following chapter.

## *Chapter VI*

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### **CAL-VETS AND THEIR HOUSING**

If the Cal-Vet program is to be justified as a publicly owned and operated program, it must be justified in terms of housing benefits to California veterans. So far, we have determined how many qualified veterans have used the program and how much State credit is committed to it. We know very little, however, about the veterans themselves or the kind and quality of houses they purchase. The main purpose of this chapter is to present statistics that reveal certain personal characteristics of Cal-Vet borrowers, the quality of houses purchased, and the type and amount of loans made. These data will enable us to explore the basic question of who bought what kind of housing.

#### **LIMITATION OF DATA**

Cal-Vet maintains basic current and historical statistics on punched cards in its central office. Data can be obtained from the cards on the number of home loans, average size of loan, average price paid for the home and so forth for nearly all of the 40 years of Cal-Vet's operation. Other information, such as veteran's income, number of dependents, square footage and age of house purchased, and lot and improvement values, is not kept on punched cards but is available for recent years from Cal-Vet appraisers' reports. In order to analyze these vital data, samples were drawn from all contracts written during the year 1956 and the first six months of 1957 and 1959. (The 1958 sample was statistically inadequate.) Selected personal and property data were transferred from the appraisers' reports to machine punch cards for analysis. The absence of older personal and property data precludes historical comparison of these characteristics, but the limited data do permit comparisons with similar FHA information for similar periods. (The Veterans Administration has not released comparable data by states.) Some light is cast at least on the question whether the houses purchased by Cal-Vet borrowers in recent years are equal, better or inferior in quality relative to those financed

under the FHA program in California. Also, for policy purposes the recent experience is more pertinent than the more distant past.

Even the recent data have their limitations. The home loan amount was increased from \$8,500 to \$15,000 in July 1956. The flood of applications induced Cal-Vet to utilize rationing and quotas during most of 1957 and part of 1958 which had pronounced effects on the types of loans made. Loan refinancing was allowed until mid-1958, and the interest rate was increased twice after 1956. Therefore, statistical comparisons, even for the short 1956-59 period, are subject to qualification.

#### STATISTICAL TESTS

Since much of the information presented in this section is based on samples, statistical tests of sample adequacy were applied to four variables appearing in the samples and in their parent populations. The four variables are: amount of loan, the Cal-Vet appraisal value, the price paid by the veteran, and the monthly instalment payment. A sample of 915 was drawn from the 1956-57 universe of 22,238 contracts. For the 1959 period, 539 contracts were used as a sample from a universe of 10,129 contracts. The t-test<sup>1</sup> for the samples yielded results that are consistent with the characteristics of the population for which data are available. The 1959 sample was more nearly like its parent in all characteristics tested than was the 1956-57 sample. The 1956-57 sample was smaller and the sample and parent populations were more varied because of rationing and loan controls.

The analysis that follows is based chiefly on the statistics presented in Appendices M, N, and O.

#### Characteristics of Borrowers

Statistics are available on four personal characteristics of Cal-Vet borrowers: age, number of dependents, life expectancy, and income.

#### AGE OF BORROWERS

The average age of all borrowers in 1959 was 34.9, the typical age of home buyers in the United States. About 25 percent of all borrowers were in each of three age brackets 26-30; 31-35; and 36-40 (Table 32).<sup>2</sup> A larger percentage was above age 35 than below. The youngest borrower was 21 and the oldest was 70 years of age. In 1956-57, the average age was 36.6; almost 2 years older than the average in 1959. The decline in the average age reflects two factors: (1) the increased number of Korean conflict borrowers in 1959,<sup>3</sup> and (2) the increased number of original loans in 1959 as contrasted to refinancing loans in 1956-57 which were abolished in 1958. Refinancing favored the older veterans who were already housed. The average age of new borrowers should increase if (a) veterans' eligibility

requirements remain the same as in 1960, and (b) house prices rise while maximum loan limits remain fixed, thus increasing the size of down payments required.

#### DEPENDENTS OF BORROWERS

The dependency status of Cal-Vet borrowers is virtually the same as for the population as a whole. In 1959, the average borrower had 2.85 dependents (wife and/or children or parents), which made an average household of 3.85 persons.<sup>4</sup> Slightly more than 1 percent were single while 3 percent of the borrowers had six or more dependents. In 1956-57, the average number of dependents was 2.6, which correlates with the older age of the borrowers; after age 45 the number of dependents diminishes.

#### DISABILITY AND LIFE EXPECTANCY OF BORROWERS

Cal-Vet's disability and life insurance experience shows that in fiscal 1959-60, 378 disability claims were approved, or roughly 3.5 per 1,000 contracts outstanding, and 236 life insurance claims were filed, or 2.4 per 1,000 contracts in force. In the 5 years of operation of the disability insurance program, 1955-60, 1,247 disability claims were filed of which 289 were active on June 30, 1960.

Cal-Vet's life insurance experience dates back to 1939. During the World War II years, claims were filed at the rate of about 8 per 1,000 contracts in force. War casualties and a rising average age of existing contract holders (new contracts were not being written) tended to raise the mortality rate. The rate diminished to a low of 2.3 claims per 1,000 contract holders in the 1954-55 period (Appendix D, Table D-1). The 1950-54 death rate experience for all persons aged 34 in the United States, based on the Commissioners 1958 Standard Ordinary Mortality Table, was 2.4 per 1,000. Hence, Cal-Vet's mortality experience in recent years is no different than for the population as a whole.

#### INCOME OF BORROWERS

Information on money income of Cal-Vet borrowers was obtained for two categories: (1) net income (take-home pay after deductions of taxes, union dues, insurance premiums, and so forth) of the veteran; and (2) other income of the veteran's household. In 1959, the average net income was \$429 per month and other income averaged \$151 per month, making an average total income of \$580 per month.<sup>5</sup> Since much of the "other" income was a wife's earnings, the "effective" income that could be depended on for repayment of the loan was probably reduced to an average of about \$525 per month.<sup>6</sup> The Federal Housing Administration reported that California borrowers purchasing new homes under its program in 1959 had an

average effective income of \$700.91, and those purchasing existing homes averaged \$649.67 effective income per month. Effective income was about 90 percent of current income, before taxes.<sup>7</sup> In both cases the average income was substantially above that reported by Cal-Vet purchasers.

The distribution of the two types of income among Cal-Vet borrowers in 1959 reveals some sharp contrasts. About 8 percent of the borrowers reported no net income but an average of \$791 per month in "other" income. Sixty percent of all borrowers had net incomes in the range of \$300 to \$500

TABLE 26

COMPARISON OF ANNUAL MONEY INCOMES FOR ALL CALIFORNIA HOUSEHOLDS  
AND CAL-VET BORROWERS IN 1959<sup>1</sup>

Money Income	Estimated Income of California Households (percent)	Cal Vet Borrowers' Income <sup>2</sup> (percent)
\$ 000-\$2,499.....	15.5	3.0
2,500- 3,999.....	17.0	
4,000- 6,999.....	36.3	
7,000- 9,999.....	17.3	
10,000 and over.....	13.9	10.0
Total.....	100.0	100.0

<sup>1</sup> All of 1959 for California households, 1st six months of 1959 for Cal-Vet borrowers.

<sup>2</sup> Includes all income of veterans' households.

Sources: California household income from "Survey of Buying Power," *Sales Management*, July 10, 1960, p. 98 (Copyright 1960, further reproduction is forbidden); Cal-Vet borrowers' incomes from the sample of 1959 loans obtained from Division of Farm and Home Purchases, Department of Veterans Affairs, Sacramento, California.

per month. Twenty-seven percent had monthly net incomes above \$500 and 13 percent had net incomes below \$300, including the 8 percent that reported no net income. On the other hand, 42 percent of the borrowers reported zero "other" income, which means that the remaining 58 percent averaged \$267 per month in "other" income. About 10 percent had "other" incomes of more than \$400 per month.

How do these incomes compare with the incomes of all households in California? The data in Table 26 suggest that the Cal-Vet program in 1959 appealed largely to families in the upper middle-income group and to a much greater degree than their occurrence in the general population. The lower-income groups did not participate in the Cal-Vet program in proportion to their frequency in the population. Low incomes are usually found in the households headed by young and old persons. There were not many "young" veterans in 1959, at least not in the same frequency as all young household heads in the population. Cal-Vet borrowers were concentrated mainly in the middle-age group, which is the highest money income group of all age levels in the economy,<sup>8</sup> and the highest among

Cal-Vets (Appendix M, Table M-2). There are indications, too, that for comparable age groups veterans have higher and more stable incomes than do non-veterans.<sup>9</sup>

### Characteristics of Cal-Vet Housing

Physical and value characteristics of Cal-Vet houses are available for 1956, 1957 and 1959. Selected physical characteristics for these three periods are shown in Table 27. Similar value characteristics are shown in Table 28. For greater details see the appendix tables.

TABLE 27  
AVERAGE PHYSICAL CHARACTERISTICS OF CAL-VET HOUSES,  
1956, 1957 AND 1959<sup>1</sup>

Characteristics	Period		
	1956	1957	1959
Size of house (square feet).....	1,189	1,229	1,305
Age of house (years).....	6.5	6.3	5.7
Rooms (number).....	5.3	5.5	5.7
Bedrooms (number).....	2.7	2.8	2.9
Bathrooms (number).....	1.25	1.35	1.5

<sup>1</sup> Based on a sample of contracts written during the full year of 1956, first six months of 1957 and of 1959.

### PHYSICAL CHARACTERISTICS

The average size of houses and the number of rooms, bedrooms and bathrooms financed by Cal-Vet all increased between 1956 and 1959. As was noted earlier, however, restricted loan limitations and widespread refinancing are reflected in the 1956 figures; rationing, in the 1957 figures; while financing in 1959, except for loan limits, was unimpeded. With the increase in house size, the age of the house declined. About 45 percent of all homes financed in 1959 were under 1 year of age as contrasted to only 26 percent in the 1956-57 period.<sup>10</sup> The difference reflects higher loan values and no refinancing in 1959.

New Cal-Vet homes (0-1 year of age) averaged 1,390 square feet in size in 1959, and contained 5.8 rooms and 3.1 bedrooms. Comparable 1959 data for FHA-financed new home loans in California show that the average size was 1,267 square feet, with 5.7 rooms, and 3.2 bedrooms.<sup>11</sup> A similar difference in square footage prevailed for existing homes. Existing homes financed by FHA averaged 1,135 square feet in size while Cal-Vet's averaged 1,250. Nearly 10 percent of Cal-Vet loans were on homes over 20 years of age that averaged more than 1,500 square feet in size.

## VALUE CHARACTERISTICS

As would be expected, Cal-Vet home and loan values have increased too, but they have increased more than have physical dimensions (Table 28). While average square footage increased by slightly more than 10 percent between 1956 and 1959, total appraised value increased by nearly 40 percent. The average lot value increased more than did improvement value.

Cal-Vet value figures for new homes (0-1 year of age) for 1959 were: \$3,086 for the average lot value, \$13,731 improvement value; and \$16,818

TABLE 28  
AVERAGE VALUE CHARACTERISTICS OF CAL-VET HOUSES,  
1956, 1957, AND 1959<sup>1</sup>

Characteristics	Period		
	1956	1957	1959
Appraised:			
Lot value.....	\$ 2,309	\$ 2,787	\$ 3,492
Improvement value.....	9,480	10,425	12,181
Total value.....	11,789	13,212	15,673
Price paid by veteran.....	12,646	13,698	16,396

<sup>1</sup> Based on a sample of contracts written during the full year of 1956, first six months of 1957 and of 1959.

average total value. Similar new home data for FHA loans in California were: \$3,247 for market price of site and \$16,417,<sup>12</sup> for total property value, leaving \$13,170 for improvement value. The values are somewhat different for existing homes; Cal-Vet's lot and improvement values were both higher than was reported by FHA. These data, along with the square footage data, suggest that Cal-Vet made more new-home loans in smaller communities in the State where land values are lower and improvement values are greater than did FHA. On the other hand, it favored larger existing houses on more expensive urban sites than did FHA.

Cal-Vet's lending experience indicates marked differences in land and improvement values by districts. An example of such differences is presented in Table 29. The differences in total values among districts are not as great as the differences in improvement values and the differences among the latter are not as great as the differences among lot values. Total value is controlled by loan limits and a veteran's income and assets (see Appendix O, Table O-1 for the differences in value-to-income ratios among all districts). Improvement value in the Cal-Vet portfolio is related chiefly and inversely to age of house. Lot value is related to geographical location; metropolitan sites are much more expensive, on the average,

than non-metropolitan sites. Veterans living in metropolitan areas seem to offset higher lot prices by buying older houses.

In 1959, almost one-third of all homes financed by Cal-Vet were in the \$15,000–\$18,000 price category; nearly 30 percent were above \$18,000 and 40 percent were below \$15,000. Only 2 percent were priced below \$10,000 (Table 33).

In nearly all cases, the price paid by the veteran for a house was more than Cal-Vet's appraisal of the property. In 1959, the average appraisal amount was about 96 percent of the average price paid by veterans. Since

TABLE 29  
AVERAGE PROPERTY CHARACTERISTICS, BY  
SELECTED DISTRICTS, 1959<sup>1</sup>

District	Age of House (years)	Lot Value	Value of Improvements	Total Value
Redding.....	1.5	\$1,582	\$15,127	\$16,709
Fresno.....	1.8	2,140	12,842	14,982
Oakland.....	8.4	3,511	12,293	15,804
Van Nuys.....	8.3	4,868	11,470	16,338
All 17 Districts.....	5.7	\$3,492	\$12,181	\$15,673

<sup>1</sup> Based on a sample of contracts written during the first six months of 1959.

an appraisal involves a human judgment, it is of interest to note that the ratio of average appraisal to average price paid ranged from a low of 89 percent in one district to 99 percent in another. Loan amounts are related to the appraisal value and not to price paid.

### Characteristics of the Loan

The average size of home loan made by Cal-Vet in the 1956–1959 period was as follows:<sup>13</sup>

1956.....	\$8,714	1958.....	\$12,638
1957.....	9,709	1959.....	12,860

The maximum loan allowed during this period was \$15,000. Refinancing, rationing, and district quotas, attributes of a shortage of funds, affected the size of the 1956–57 loan amounts. In 1956–57, only 2 percent of the borrowers obtained the maximum of \$15,000 as contrasted to nearly 27 percent in 1959 (Table 30). In 1956–57, 20 percent borrowed less than \$8,000 as compared to only 1.5 percent in 1959.

Inasmuch as the contract interest rate and maturity date are virtually the same for all borrowers, monthly instalment payments are directly related to the size of the loan. In 1956, the average monthly instalment

payment was \$49.28; in 1957, \$54.49; and in 1959, \$72.15. While average monthly installment payments (and amount of loan) increased by more than 30 percent between 1957 and 1959, average total incomes increased only by a little more than 10 percent. More of the family incomes were being used to service a growing indebtedness to Cal-Vet.

It should be noted, however, that Cal-Vet borrowers pay off their loans much sooner than the contractual period which is normally 20 years. Between 1950 and 1960, dollar loan balances outstanding were being paid off at annual rates varying from 15.7 percent in 1950 to 12.2 percent in

TABLE 30  
DISTRIBUTION OF CAL-VET HOME LOANS,  
BY AMOUNT OF LOAN, 1959<sup>1</sup>

Amount of Loan	Number of Loans (percent)	Amount of Total Money Loaned (percent)
Less than \$7,999.....	1.5	0.8
\$8,000-\$ 9,999.....	5.0	3.5
10,000- 11,999.....	18.8	16.2
12,000- 14,999.....	48.0	48.8
15,000.....	26.7	30.7
Total.....	100.0	100.0

<sup>1</sup> Based on a sample of 536 contracts written during the first half of 1959.

1960 (Table 31). At the 1950 rate, loan balances would have been paid off in roughly 6 years, at the 1960 rate in about 8 years. The lengthening of the average pay-off period since 1956 reflects (a) the rapidly rising loan balances, and (b) the increase in the average size of new loans. During the 1950-60 period, regular installment payments including prepayments, were amortizing loans outstanding in about 12 years. Payments in full, including proceeds from voluntary property sales, life insurance policies, and repossessions, fluctuated the most, and rather independently of loan balances in force. For a historical record of the average life of loans made before 1940, in terms of numbers, see Appendix P, Table P-1.

### Interrelationship of Variables

A number of interrelationships among personal, property, and loan characteristics are selected for special attention. Most of these are from 1959 data. The independent variables available for emphasis are age of veteran, income of veteran, number of dependents, age and location of house. The important dependent variables highlighted are size of the house, the price

paid by the veteran, department appraisal, and the amount of the loan. Detailed interrelationships may be found in Appendix M, Tables M-1 through M-6 and Appendix N, Table N-1.

#### PERSONAL CHARACTERISTICS

The younger and older Cal-veterans had the smallest number of dependents; the younger veterans had the lowest incomes and they tended to buy the oldest houses. The 36-40 year old veterans purchased the

TABLE 31  
PERCENTAGE OF LOAN BALANCES OUTSTANDING RECEIVED IN REGULAR  
INSTALMENTS AND PAID IN FULL, 1950-1960<sup>1</sup>

Year	Regular Instalments	Paid in Full	Total
1950.....	10.4	5.3	15.7
1951.....	8.9	5.2	14.1
1952.....	8.7	4.3	13.0
1953.....	8.4	5.3	13.7
1954.....	8.3	4.4	12.7
1955.....	8.4	5.3	13.7
1956.....	8.7	6.3	15.0
1957.....	8.8	5.3	14.1
1958.....	8.9	3.6	12.5
1959.....	8.7	4.2	12.9
1960.....	8.2	4.0	12.2

<sup>1</sup> Payments are for the fiscal year; loan balances outstanding are estimated for the mid-point of the fiscal year, or January 1, of each year shown.

largest, and generally the newest houses and paid the highest prices for them; but the 41-45 year old veterans had the highest incomes. The younger veterans were on their way up and purchased in anticipation of their status and dependency needs.

Slightly more than 1 percent of the buying veterans had no dependents, they were above average in age, about average in veteran's income but below average in total income, and they tended to buy older, smaller houses in urban areas where lot values are high. The family with one dependent (generally the wife) had the highest total income, but the veteran's net income was the lowest. As the number of dependents increased, the net income of veterans increased up to the level of five dependents but total income tended to decline. As would be expected, total income was positively correlated with age of veteran, size of house purchased, and price paid. It was inversely related to the age of the house. The size of house increased with the size of family, but the value of the property did not increase correspondingly. By selecting outlying locations and older homes, property values were kept in line with the family size and income.

## PROPERTY CHARACTERISTICS

New homes and those 20–29 years of age were the highest priced. The latter group of houses was much the larger in square footage and was located on higher priced land than were new homes. Older homes were occupied by larger families. There was little relationship of age of veteran or income to the age of the house.

TABLE 32  
AMOUNT OF HOME LOAN TO PRICE PAID, BY AGE OF VETERAN, 1959<sup>1</sup>

Age of Veteran	Loans (number)	Amount of Loan (average)	Price Paid by Veteran (average)	Average Amount of Loan to Average Price Paid (percent)
Under 25.....	334	\$11,454	\$13,187	86.8
26–30.....	2,375	12,404	14,980	82.8
31–35.....	2,771	13,030	16,486	79.0
36–40.....	2,345	13,178	17,136	76.9
41–45.....	1,272	13,187	17,606	74.9
46–50.....	609	12,989	17,650	73.6
51–55.....	294	12,453	16,642	74.8
56–60.....	95	12,600	17,500	72.0
61 plus.....	34	12,788	18,600	68.8
	10,129	\$12,860	\$16,407	78.4

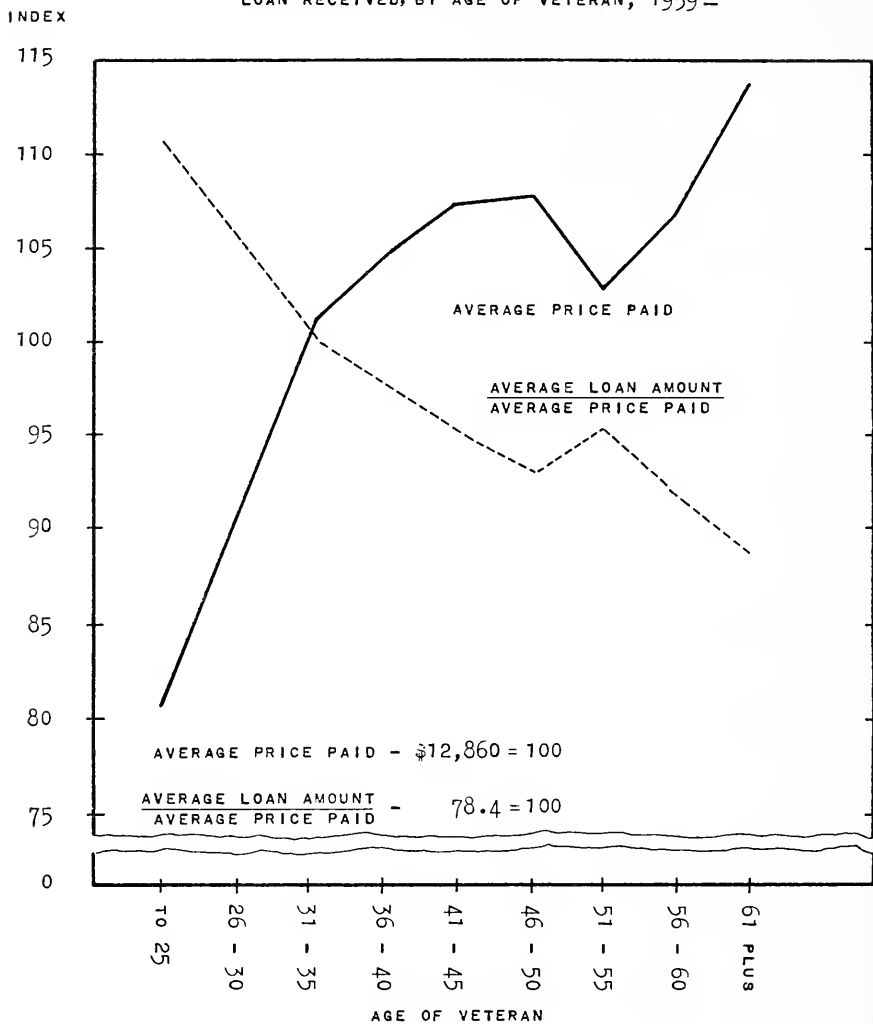
<sup>1</sup> Based on all contracts written during the first six months of 1959.

The only locational data available are for districts,<sup>14</sup> which can be re-grouped into Southern and Northern California and into metropolitan San Francisco and Los Angeles classifications. About 48 percent of all loans in 1959 were made in Southern California and approximately 68 percent were in the two major metropolitan areas. Incomes, as would be expected, were higher in the metropolitan areas. They were lowest in the San Joaquin Valley districts. Size of families tended to be higher in the non-metropolitan areas and the homes purchased were newer but, in general, less expensive because of lower land values. There was no marked difference in the average age of veterans by district.

## LOAN-TO-VALUE RATIOS

The average loan-to-appraisal value ratio for Cal-Vet home loans in 1959 was 82.1. This was considerably below FHA's median loan-to-value ratio in California of 92.9 percent for new homes and 91 percent for existing homes in 1959.<sup>15</sup>

CHART 11  
RELATIONSHIP OF PRICE PAID FOR A HOME TO  
LOAN RECEIVED, BY AGE OF VETERAN, 1959<sup>1</sup>



<sup>1</sup> AVERAGES BASED ON ALL LOANS FOR THE FIRST SIX MONTHS OF '59.  
SOURCE- TABLE 32

More meaningful from a borrower's point of view is the ratio of loan to price paid, which averaged 78.4 percent for Cal-Vet loans in 1959. The ratio was 86.8 for veterans under 25 years of age and it declined steadily to 68.8 percent for borrowers over 61 years of age (see Table 32 and Chart 11). The different ratios for young and old veterans were due more to the differences in prices paid for houses than to the differences in size of loans obtained. It is apparent that older veterans had more assets for a substantial down payment than did younger veterans.

TABLE 33  
DISTRIBUTION OF CAL-VET HOME LOANS, BY PRICE PAID  
BY VETERANS, 1959<sup>1</sup>

Price Paid by Veterans	Number of Loans (percent)	Total Amount Loaned (percent)
Less than \$8,000.....	0.2	0.1
\$ 8,000-\$ 9,999.....	1.9	1.2
10,000- 11,999.....	7.6	5.9
12,000- 14,999.....	29.1	27.2
15,000- 17,999.....	31.9	33.4
18,000- 19,999.....	14.7	16.0
20,000 and more.....	14.6	16.1
Total.....	100.0	100.0

<sup>1</sup> Based on all contracts written during the first six months of 1959.

By district, the average loan-to-price ratios ranged from 73.0 in the Santa Rosa district to 87.2 in the Fresno district. This wide difference between districts cannot be attributed to differences in veterans' incomes, ages, or prices paid. It is more likely due to variations in lending practices in the district offices.

Sixty-five percent of the money loaned in 1959 went to veterans buying properties which cost more than \$15,000 (Table 33). Only 27 percent, however, borrowed the maximum of \$15,000. About one-third went to veterans buying homes priced at more than \$18,000. Could veterans afford to buy and maintain these homes?

#### VALUE-TO-INCOME RATIOS

Two value-to-income ratios, loan-to-income and price-to-income, indicate the ability of Cal-Vet borrowers to service their loans and to pay the economic costs of their housing. The average loan-to-income ratio in the first six months of 1959 was 1.8 (Appendix O, Table O-1). This is a reasonable ratio viewed in terms of the installment payment and family income. The average monthly installment payment of \$72.15 represented about

12.5 percent of the average monthly income. This approximated the percentage allowed for a home owning, wage-earner family of four in the San Francisco Bay Area in 1959.<sup>18</sup> In other words, because of the prudence of Cal-Vet and/or of Cal-Vet borrowers, the average loan was reasonable in relation to the average veteran's ability to pay.

The average price-to-income ratio was 2.4. This ratio alters the average veteran's housing expense burden somewhat. It is generally recommended

TABLE 34  
AVERAGE PRICE OF HOME PAID, AVERAGE ANNUAL INCOME, AND RATIO OF APPRAISED  
VALUE TO ANNUAL INCOME, BY SIZE OF INCOME, 1959<sup>1</sup>

Total Income	Total Loans (percent)	Annual Income (average)	Price Paid by Veteran (average)	Ratio of Appraised Value to Annual Income
To \$3,599.....	2	\$ 3,300	\$13,790	4.2
\$3,600-\$4,799.....	11	4,284	12,602	2.9
4,800- 5,999.....	25	5,388	15,137	2.8
6,000- 7,199.....	24	6,528	16,542	2.5
7,200- 8,399.....	19	7,740	17,090	2.2
8,400- 9,599.....	10	8,892	17,922	2.0
9,600 plus.....	9	11,952	19,819	1.7
	100	\$ 6,960	\$16,274	2.3

<sup>1</sup> Based on a sample written during the first six months of 1959.

that a home buyer, with a 25 percent down payment, pay about two times his annual income for a house in order to keep costs below 25 percent of his income.<sup>17</sup> The average Cal-Vet paid nearly 25 percent down but he purchased a home costing nearly two and a half times rather than twice his annual income. For young families with rising incomes the two-and-a-half-times rate is not unreasonable.

General estimates of the economic cost of home ownership range from 9 percent (allowing for income tax deductions)<sup>18</sup> to about 13 percent<sup>19</sup> of the price paid for the house. (Economic cost is defined to include allowances for depreciation and obsolescence, maintenance and repair, fire insurance, taxes and, the largest item, interest on the invested capital.) The standard amount is 12 percent of the price paid, without income-tax deduction allowances, and includes a 5 percent interest rate. With a 3½ percent Cal-Vet interest rate prevailing in 1959, and an allowance for income-tax deductions, the economic cost of home ownership to Cal-Vet borrowers was more nearly 10 percent of the price paid. This would imply total monthly housing costs of about 24 percent of monthly income. According to these figures, Cal-Vet borrowers, on the average, were able to purchase higher-priced houses without incurring excessive housing costs,

than would be normally recommended for families with their incomes. Those eligible for a veteran's real estate tax exemption fared even better.

The average loan- and price-to-income ratios, however, conceal the wide range in ratios and the high obligations assumed by some veterans relative to their incomes. Table 34 shows that low-income veterans assumed high home and loan costs relative to their incomes while high-income veterans were favored with lower ratios. Fortunately, most of the low-income veterans were young men anticipating higher incomes and relatively lower housing cost burdens in the future. Cal-Vet's low repossession rate and rapid pay-offs indicate that most Cal-Vet borrowers placed a premium on quality homes owned in fee simple.

### Summary

The vital, economic, and housing statistics for Cal-Vet borrowers indicate that since 1956 the quality of housing purchased has improved. The 1959 data suggest that, in spite of lower incomes, Cal-Vet borrowers purchased better housing, in terms of square footage, number of rooms and prices paid, than did FHA borrowers in California. This substantiates the hypothesis that in view of lower interest rates and costs Cal-Vets would buy better homes than would FHA-borrowers. There is reason to believe that veterans were capitalizing on the many economic advantages of a Cal-Vet loan. This finding is contrary to that of an earlier study of Veterans Administration loans which indicated that at every income level veterans tended to purchase less expensive homes than did FHA buyers.<sup>20</sup>

The data show, too, that Cal-Vet was largely serving the upper-middle income veterans who were able to make substantial down payments. Some borrowers, particularly the young and low-income veterans, incurred quite heavy housing expenses. Cal-Vet statistics could not answer such questions as: (1) what was a veteran's net worth? (2) which of the veterans were previous home owners? and (3) were purchases motivated more by financial benefits or by the lack of alternative home loans from other sources?

## *Chapter VII*

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### **BENEFITS AND COSTS: AN APPRAISAL OF THE CAL-VET PROGRAM**

Any program of public investment raises the fundamental question of benefits versus costs. These two concepts offer a convenient and meaningful framework for evaluating the broader significance of the Cal-Vet program to the society it serves.

Benefit and cost analyses usually are made in terms of primary and secondary, tangible and intangible, benefits and costs.<sup>1</sup> For our purposes, however, it seems advisable to structure the analysis in terms of veterans and society in general. Therefore, the appraisal will proceed under three topics: (1) private benefits and costs; (2) social benefits and costs; and (3) alternative methods of financing.

An attempt to assess benefits and costs of a social program leads us into the wilderness of welfare economics in which trails to "better" or "worse" positions are inadequately explored and plotted.<sup>2</sup> Once in the wilderness, even the trail back out may become blurred by the disinterest of a complacent public or blocked by the political pressures of vested interest groups. In the case of the Cal-Vet program it is somewhat easier to quantify the benefits and costs for the participating veterans than for society as a whole. Often the best that can be done is to identify the benefits and costs and to leave their weighting to the body politic.

#### **Veterans' Benefits and Costs**

There are two aspects to veterans' benefits and costs. The first is the benefits-costs to participating veterans. The other is the benefits-costs to nonparticipating veterans, especially those who will never participate. Because military-service veterans head about 30 percent of all households in California, they bear or share a large segment of the social burdens or benefits of the Cal-Vet program. Therefore, nonparticipating veterans will

be considered with the rest of the population when social benefits and costs are discussed.

The original program was justified on two grounds: (1) to reward war-service veterans in a more lasting way than with a cash bonus;\* and (2) to provide a means whereby returning and "needy" veterans could obtain decent housing. To what extent has the program met these criteria?

#### REWARDING VETERANS

The original Act restricted home loans to \$5,000, the borrower was not permitted to purchase a home appraised at more than \$5,000, and his total real estate holdings could not exceed \$5,000 (similar farm values were set at \$7,500). If a veteran obtained another type of State veteran's assistance he was disqualified from obtaining a home or farm loan. One by one these restrictions have been eliminated or relaxed. Cal-Vet borrowers may obtain other State veterans' benefits, too; many do.

With only 12 percent of the eligible veterans participating in the Cal-Vet program to date, the vast majority of veterans have either not been able to or have not wished to participate. Reliable authorities have estimated that if the program were continued indefinitely, not more than 25 to 30 percent of the originally eligible veterans would obtain Cal-Vet home or farm loans. In other words, the program intentionally discriminates between veterans and non-veterans but inadvertently discriminates among veterans, too.

The primary benefit to participating veterans is in the ownership and consumption of housing services. In 1959, new Cal-Vet borrowers were purchasing better housing than were FHA buyers in California. The extent of these primary benefits is measurable in terms of the economic subsidy involved.<sup>8</sup> Based on the subsidy definition in the footnote, the State of California through the Cal-Vet program was providing a commodity (money) and services (insurance) at less than market prices to a specific rather than a general market. The amount of the subsidy, the difference between the price of the money and services on the private market and the price paid to Cal-Vet, has varied over time. In the early years, with a 5 percent Cal-Vet interest rate and no insurance, the spread between the private price and the Cal-Vet price was probably smaller, because Cal-Vet operating expenses and earned surpluses were relatively larger than in recent years.

Since World War II, the money-price differential between Cal-Vet and private loans has averaged at least 2 percent per loan dollar. When Cal-Vet was charging 4 percent, the prevailing market rate in California, ex-

\* In discussing benefits and costs, one may be tempted to digress into the question of what are the "proper" rewards for veterans in return for their war-service. This study is not concerned with alternative rewards; it is an analysis of only one type of reward.

emplified by savings and loan associations, was 6 percent or more.<sup>4</sup> The 2-point subsidy arises from several factors. Use of the full faith and credit of the State to provide Cal-Vet with money reduces the cost of funds to veterans by shifting the credit risk to the general public. Competition among investors for tax-exempt bonds lowers the cost of bond money to the State.<sup>5</sup> Centralized administration and control in a single Statewide agency reduces per unit costs because of lower overhead expenses for salaries and facilities and the economies of scale associated with a large loan volume. By using the average cost of funds as a basis for pricing, Cal-Vet theoretically treats all participating veterans alike. Any change in costs and interest rates, however, affects the benefits of participating veterans differently depending on the amount of their loans and the movement of interest rates. Cal-Vet has tried to equalize benefits among participating borrowers by placing maximum allowable values on loans and properties purchased, by eliminating marginal, high-risk borrowers, and by keeping earned surplus that might be used for the benefit of future borrowers to a minimum. Benefits were shared more equitably prior to 1958 when refinancing was permitted; more veterans obtained smaller loans. After the liberalization of loan amounts and terms in 1956, the average amount of each loan increased more rapidly than the number of loans. Moreover, required down payments increased. Relatively fewer veterans were benefiting from the larger volume of available funds. With savings and loan associations paying 4 percent and later 4½ percent compounded quarterly on insured savings, it paid an affluent Cal-Vet borrower handsomely to borrow Cal-Vet's maximum at 4 percent and to invest his own savings at 4½ percent or more.

A 2-percentage point subsidy (the difference between 4 and 6 percent) amounts to about \$266 per \$1,000 loan maturing in 20 years or \$117 if maturing in 10 years. A \$12,800 loan, the average size in 1959, would yield a total subsidy of \$3,463 in 20 years and \$1,528 in 10 years. In fact, the average length of loan is slightly less than 10 years. The immediate (present discounted) value of the prospective subsidy on signing a loan contract amounts to approximately \$2,000 for the 20-year term and \$1,100 for the 10-year term.<sup>6</sup> Any alteration in repayment schedules, length of contract periods, interest rates, or in the discounting rate of interest would, of course, produce different results.

Cal-Vet borrowers have an additional primary economic benefit in the group life insurance program. They save about \$3.50 per \$1,000 of loan per year for a 20-year term. (The saving is greater for older than for younger veterans, but the real economic benefits accrue only to the beneficiaries.) On a \$12,800 original loan, the average outstanding amounts to somewhat more than \$7,000 per year for the 20-year period. On this basis, the saving on insurance comes to \$490 for the 20 years. The discounted

present value is in the vicinity of \$250 (discounting the cumulative monthly savings at the rate of 4 percent per annum). Other benefits accruing from home ownership such as possible capital gains, veterans' tax exemptions, and income tax deductions are available to others, so Cal-Vet borrowers acquire no special economic advantages from these features. Prior to 1948, however, veterans paid realty taxes on their possessory interest only and not on the full appraised value.

Secondary and more intangible benefits might include the investment value of better housing if it enhanced a veteran's productivity or earning power. There is no evidence for either asserting or denying that the program has performed this function. Inasmuch as the upper middle-income veterans are the chief beneficiaries of the program, their housing is more likely a product of rather than a means to higher income. Early in the program, the novel monthly payment plan for interest and amortization may have provided an indeterminable benefit to budget-minded veterans desiring home ownership. Today, such monthly amortization is commonplace.

#### PROVIDING HOUSING

Returning World War I veterans encountered serious housing difficulties. For example, the 1920 Census data suggests considerable "doubling-up" of families in a single dwelling. Encouraging home ownership among veterans was a definite objective of the original Cal-Vet program. Amortized loans were scarce and mortgage interest rates were high. Although "need," measured in asset or income terms, was not a criterion for a loan, the dollar limitations on real estate holdings and high loan-to-value ratios suggest that the legislative intent was to restrict Cal-Vet loans to those who did not have substantial capital or income. The maximum loan, in terms of the 1920 price level, was no doubt adequate to provide the majority of veterans with an "adequate and decent" home.

A serious housing shortage recurred after World War II. The Cal-Vet program aided many veterans to obtain housing but hardly in proportion to the need. The new federal VA home-loan program removed considerable pressure from the besieged Cal-Vet program. Except for the interest rate, Cal-Vet lending terms remained more conservative than those of the federal program, and by mid-1950 its growth began to taper off.

The liberalization of lending terms in 1956 tended to favor the more affluent veterans, many of whom were previous home owners. The 1959 data cited in this study indicate that the vast majority of Cal-Vet borrowers obtained adequate or more-than-adequate housing under the program. The prices paid, the substantial down payments required, and the financial statements filed indicate that the participating veterans were reasonably well-off. Few "needy" veterans obtained Cal-Vet housing loans. Cal-Vet does not cater to any substantial portion of the low-income group.<sup>7</sup>

Over the years, most of Cal-Vet's intended indirect "need" qualifications have been dropped. The major restrictions still intact are that only single-family homes are eligible for purchase, that they cannot be used for income-producing purposes, and that the State retains title. State retention of title prevents short-term financial speculation with the low-interest Cal-Vet loan. On the other hand, State ownership may prevent veterans from obtaining home improvement loans elsewhere and from borrowing on their equity, and a forced sale may result. Young Cal-Vet borrowers with expanding families and incomes are likely to find State ownership a future impediment to improved housing in their current location.

The program could perhaps be more easily justified as a welfare program if it provided home financing largely for veterans who clearly do not qualify for the private mortgage market. In recent years, the vast majority of veterans obtaining Cal-Vet loans, particularly those in urban areas, were in income groups which typically could obtain and did obtain loans from private lenders.

Cal-Vet has been particularly careful to operate the program in a financially prudent manner to avoid losses to the State and the criticism that would ensue. This prudence is reflected not only in its accumulated earned surplus but also in its extremely low repossession ratios. Further, most of the loans since the inception of the program have been 20-year loans which require larger monthly payments than most low-income veterans would be able to pay. (By law, Cal-Vet is permitted to make 40-year loans.) Cal-Vet has kept to 20-year maturities chiefly because bond redemptions were so scheduled. However, repayment statistics show that the average loan is paid off in less than 10 years, and, as a consequence, Cal-Vet has had a windfall of extra investment funds.

If Cal-Vet's objective were to accommodate more low-income veterans interested in home ownership, it could adjust its operations in a number of ways. One approach would be to vary contract maturities according to the asset and payment capacity of veterans. This would mean longer maturities and smaller monthly installments for low-income veterans, and the opposite for wealthier borrowers. Another possibility would be to charge lower interest rates to veterans with low net worths and incomes and raise the rates as the veteran's equity and financial position improved.<sup>8</sup> In both approaches, continuing financial tests would be required. Still another technique might be to lower down payment requirements, similar to the FHA schedule, as home purchase prices decreased.

The steady increase in prices of "decent" homes has eliminated many veterans from the home ownership market. One method of helping these marginal groups might be to enable veterans with interest, ability, and leisure time to construct their own homes. The saving on labor costs would lower loan requirements and make it possible for veterans to capitalize

their own labor into the value of the property. Cal-Vet adheres closely to FHA property requirements for new and existing homes, which reduces its flexibility in meeting specific housing situations. Cal-Vet has not been an innovator or encourager of cost-cutting home construction techniques.

Any of these deviations from past practice would increase Cal-Vet's management problems in dealing with money inflows and outflows, in covering average costs, and in maintaining a semblance of equity among participating veterans and between participating and non-participating veterans. The interest and operating costs and the loss ratios would undoubtedly increase, but the interest rate could be adjusted to continue a surplus for loss contingencies.

### Social Benefits and Costs

The social benefits and costs of the Cal-Vet program are considered to be those that accrue to the entire population, including the participating and non-participating veterans.

#### SOCIAL BENEFITS

Potentially, the most tangible and quantifiable social benefit is the earned surplus Cal-Vet accumulates from its internal operations. The earned surplus might well be thought of as a compensatory payment to the people in the State by participating veterans for the privilege of using the State's credit.<sup>9</sup> It has been estimated that if the program were terminated as of July 1, 1960, without further bond sales or new loans, some \$175 million in net assets would be available for distribution at the end of the liquidation period in 1984. This would average about \$3 million a year for 60 years of operation.

The Cal-Vet management, however, does not accumulate the surplus as a compensatory payment to the State. Inasmuch as the program is to operate at neither a profit nor loss to the State, the surplus is designed to provide a reserve against contingencies. If the surplus were used for compensatory purposes, a rate would need to be prescribed and the amount collected paid to the State periodically. A future lump-sum payment would be an uncertainty and it would benefit future citizens at the expense of present taxpayers.

The basic question is: What interest rate should be charged Cal-Vet borrowers? If the rate of return on public investments were 5 or 6 percent, representing the social cost of public capital,<sup>10</sup> the effective demand for Cal-Vet loans might dwindle to a volume that generated little surplus. A 5 or 6 percent rate, however, would provide a real test of the value of other personal benefits of the Cal-Vet program to participating veterans.

The importation of investment funds into the State through bond sales is another important but less tangible benefit of the Cal-Vet program. The

significance of imported capital was much greater in the early years of the program than in the post-World War II period when private lending institutions obtained large amounts of mortgage funds from outside the State. It is estimated that more than half of Cal-Vet's bond funds come from out-of-state. Cal-Vet's contribution to lower interest rates cannot be ascertained because of the uncertainty of the volume of funds imported and of their full impact on mortgage interest rates.

A secondary and tangible benefit is the possible depressive effect of Cal-Vet interest rates on the level of mortgage rates in California. By providing a yardstick against which mortgage interest rates by private lenders can be compared, Cal-Vet may have helped to lower rates for all borrowers. Whether the Cal-Vet rates have actually exerted this kind of influence is open to question. Theoretically, the answer would depend on whether the supply of mortgage funds is more price-inelastic than the demand, or *vice versa*. The relatively small share of Cal-Vet's financing in the State's total home financing suggests that its effect on general mortgage interest rates, if any, is quite small.

The relative steadiness of Cal-Vet investment funds is another secondary social benefit. Cal-Vet's steadier flow of funds contrasts sharply with the wide fluctuations in funds from the VA and FHA government-sponsored lending programs. Because of the supplementary and complementary nature of the VA and Cal-Vet housing programs, relatively more veterans have acquired homes in California than in all or most of the other states. Because of its relatively small size, Cal-Vet's impact, however, has not been great on either new home construction or the sales of existing homes. The program has less impact in stimulating new investment in housing than is suggested by its share of the new mortgage market. Most of the funds have gone into the existing housing market.

Cal-Vet's excellent bond redemption record is another point in favor of the program. It has been argued that Cal-Vet has not only improved the marketability of other California bonds but has also helped reduce bond interest rates paid by other State agencies. Because Cal-Vet accounts for nearly 60 percent of all bonds outstanding, this may seem to be a valid benefit. On the other hand, it may be a specious argument. The proper question is: What would the State have had to pay for bond monies if the Cal-Vet program had not been financed with general obligation bonds?

#### SOCIAL COSTS

There is some question whether the Cal-Vet program ought to be an obligation of the State. War is a federal activity, and veterans' welfare should be a federal concern. Instead of withering away when the VA housing program emerged in 1944, Cal-Vet grew faster and larger. Only a handful of states have a special housing program for their veterans and

none is as comprehensive as California's. Inasmuch as the program is large and well entrenched in California, its impact on bond costs is a widespread economic concern.

Supporters of the Cal-Vet program argue that it is self-liquidating and, therefore, entails no cost to the State taxpayers. Opponents of the program claim that the large volume of Cal-Vet bonds has lowered the State's credit rating and increased the cost of financing to other public agencies in the State. The opponents' claims have more validity than those of the proponents, but the extent of additional costs is unascertainable. In an earlier chapter it was determined that the State paid a higher interest rate, on the average, in the 1957-1960 period than its bond rating would require. The average interest rate paid on some \$957.5 million of bonds was about .38 percentage points more in the 1957-60 period than the average paid by the State on \$365 million of bonds issued in 1954-57. The added interest cost averaged out well over \$3.5 million per year. In addition, added marketing costs totaled about \$6.7 million. Inasmuch as about 60 percent of the 1957-60 issues were Cal-Vet bonds, the largest share of the increase must be ascribed to the Cal-Vet program. There is reason to believe that without the Cal-Vet bonds, the average interest rate paid by California would have remained below the average of bonds with similar ratings and maturities.

The extra interest costs at the State level more than likely had a marked ripple-effect on bond financing costs at the county, municipal, and district levels. Over the years, the 75 to 80 percent of nonparticipating veterans may have to pay as much or more in extra taxes for the redemption of higher-cost bonds as they gain from the program's social benefits or as the few participating veterans gain in personal benefits.

Perhaps the most important social cost, however, is not the extra interest cost but the opportunity cost of using such a vast quantity of public funds (more than \$1.5 billion) for the direct benefit of so few families (about 3 percent of household heads in California). Could the State obtain higher economic returns for more people if the Cal-Vet funds were used for other public uses? The opportunity cost of alternative investments would help determine the true social cost of the Cal-Vet program. Similar investments in education, health, water, highways, and resource conservation would likely benefit more people for a longer period of time, but how much more is difficult to determine. Public investments lack the cutting edge of marginal costs and returns of the private investment market for economic decision making.<sup>11</sup> Methodologically, a satisfactory system of measuring social returns on public projects has yet to be developed. Too many built-in constraints (political, sociological, and intellectual) impede the construction of a reliable measure of social utility. Nonetheless, some studies have suggested that returns from education may run to 9 to 11 percent on cost.

This is a substantial return compared to that on housing. Indications are that the marginal investment return from added housing expenditures is close to zero.<sup>12</sup> Returns for other types of public investment are not as reliable as those for education which makes comparison difficult.

It is plausible to assume that there are public investments in the State that would yield higher benefits to more people than does the Cal-Vet program. If this is an acceptable proposition, what should be the future of the Cal-Vet program? Should it be liquidated, financed by other means, or continued as a general obligation of the State?

Politically, terminating the program might be difficult as long as large numbers of eligible veterans have not participated in it. As long as Cal-Vet is in operation, a Cal-Vet loan remains a potential alternative and future benefit for those who have not borrowed. If it were terminated, the State might be faced with a demand for an immediate cash bonus. If \$500 were paid to each of the more than 1 million veterans remaining eligible, the State's cash outlay would be more than \$500 million. It may be necessary for this reason alone to continue the program in some form.

On the other hand, if the program were to serve eventually 25 percent of the eligible World War II and Korean Veterans, as has been estimated, about 220,000 more loans and an additional investment of approximately \$2.5 billion, would be required, assuming \$12,800 as the average home loan. The program would grow to two-and-a-half times its 1960 size of more than \$1.1 billion of loans outstanding. If substantial additional State resources are not to be committed to the program either the program must be curtailed or some alternative method of financing needs to be found.

### Alternative Methods of Financing

An alternative method of financing should meet four criteria to be acceptable as a substitute for the present program: (1) a satisfactory quantity of funds flowing into the program; (2) new financing that does not impinge on the State's credit or costs of financing; (3) high loan-to-value ratios for low-income, low-asset-holding veterans; and (4) an interest-rate subsidy or its equivalent for the participating veterans.

Numerous alternative financing methods can be devised. Four are presented here: (1) Cal-Vet loans from a revolving fund; (2) Cal-Vet loan funds obtained from revenue bonds; (3) Cal-Vet's conversion into a public corporation; (4) loans by private lenders with State support. These alternatives will be discussed in the order presented and their advantages and disadvantages analyzed in terms of the criteria enumerated above.

#### CAL-VET REVOLVING FUND

The principle of the revolving fund is a fixed sum of money for lending which, in this case, would be supplied by the State from bond sales or

general revenues. The \$1 billion in Cal-Vet bonds outstanding may be viewed as the revolving fund. How much yearly business can be done with a \$1 billion fund? Once loaned to the limit, as Cal-Vet is, the amount of loanable funds would depend on the rate of repayment and earnings. For example, during fiscal 1959-60, Cal-Vet had total amortization payments from all sources of \$118 million, of which some \$69 million were used for bond redemptions and interest payments and another \$4 million for operating expenses. Only \$46.6 million remained for reinvestment out of a total investment of \$241 million in new loans. Obviously, such limited internal financing could not sustain a program of that magnitude for long.

Reinvestable funds could be increased if the State assumed repayment of Cal-Vet's future bond redemptions and interest payments. These would amount to \$79 million in 1960-61 and reach a peak of \$83 million in 1961-62, assuming no bond issues after June 30, 1960. In so doing, the Cal-Vet volume of new loans would be reduced from about \$250 million per year to roughly \$114 million per year (the \$118 million collected in 1959-60 less some \$4 million for operating expenses). To obtain the funds, amounting to more than \$1 billion by 1984, the State would need to dip into general revenues or issue bonds. All State monies so advanced, plus gains or minus losses, could be refunded when the program was terminated. Assuming a \$1 billion revolving fund loaned at 4 percent per annum for 20 years, and no loans prepaid in advance, the average amount available for lending would settle to something less than \$90 million a year. The volume of loanable funds could be increased by raising the interest rate and/or shortening maturity dates. The former, if applied to all loans in force, would raise the volume of repayments more quickly than would the latter.

#### CAL-VET REVENUE BONDS

This proposal would merely substitute revenue bonds for general obligation bonds as the source of future loanable funds. Revenue-bond financing is the usual method of financing self-liquidating public projects and is employed extensively by other states but not by the State of California. With revenue bonds, Cal-Vet borrowers would lose the full credit support of the State, and the bond rates would better reflect the market's evaluation of the risks of Cal-Vet loans. The interest paid for bond monies would increase. In the 1954-57 period, for example, Dow-Jones reported that nationally 20-year state and municipal revenue bonds yielded about .4 to .5 percentage points more than did state and municipal general obligation bonds of the same maturity. The spread widened as bond yields rose. Cal-Vet borrowers might lose 1 percentage point or about half of their present subsidy. However, in view of the \$1 billion of bonds outstanding that bear the lower interest rate of general obligation bonds, the full impact of higher rates would not be felt immediately.

Whether this method of financing would take the pressure off the rates paid on other public bond issues is problematical. Revenue-bond financing would not free Cal-Vet of fiscal responsibility to, or control by, the State or free the State of moral responsibility to revenue-bond buyers. There is reason to believe that bond buyers would look to the State for relief in case of Cal-Vet default on the revenue bonds. On the other hand, Cal-Vet would have more freedom to obtain funds as needed rather than sharing the limited general obligation bond proceeds with others.

#### CAL-VET AS A PUBLIC CORPORATION

This proposal would require revising the organic legislation of the Cal-Vet program and the conversion of the Division of Farm and Home Purchases in the Department of Veterans Affairs into a public corporation. Such a corporation would probably have more freedom to manage its affairs, including its financing, than is now allowed. The basic enabling legislation could specify the purposes of the corporation, its limitations, and by whom it would be governed. Its employed personnel could retain their civil service status and their State retirement benefits. The basic lending operations and terms need not be changed from those previously in effect.

The major differences would be in the method of obtaining and the sources of loanable funds. The corporation would not have access to the credit of the State in floating new bond issues. Unless liquidated in another manner, Cal-Vet's current bonds outstanding would remain a debt of the State, and the new corporation would be obligated to continue meeting the bond redemptions and interest payments when due. By refinancing, some of the bonds could be repaid to the State ahead of schedule.

A variety of sources of new funds might be opened to the new corporation. In addition to internal funds, it might use revenue bonds. It should be permitted to sell its present inventory of loans to outside investors, although the low interest rates on Cal-Vet loans would likely require substantial discounts from par. Non-voting common stock might be sold to obtain new capital and for refinancing.

If the corporation alternative were adopted, at least three developments would likely occur. First, the interest rate charged veterans undoubtedly would rise. Second, lending terms would change. Assignees of loan contracts, if any, would desire different lending terms than those currently in force, such as a fixed and definite rather than a flexible interest rate. Third, other groups, such as the aged, would seek to be included in the program. This could well lead to the financing of multi-family and rental units for those eligible to participate in the program. Without substantial restraints, the corporation could become a potent force in the competition for investment funds and indirectly impinge on the State's capacity to secure borrowed funds.

### PRIVATE LOANS WITH STATE SUPPORT

The State might discontinue the present Cal-Vet program and substitute a loan-insurance or -guarantee program, patterned after the FHA or VA operations, to assure veterans more liberal loans from private financial institutions. This proposal entails two qualifying conditions: (1) the State would have to assume some contingent liability; and (2) the State might have to subsidize the interest cost.

To make high loan-to-value loans possible, the State would need to underwrite all or a substantial part of lenders' risks. If the State stipulated a maximum interest rate, as Congress does for FHA and VA loans, private funds might not flow into the program in sufficient or steady volume. If the market rate of interest were to prevail, the State might have to agree to an interest subsidy to make the program politically acceptable to veterans' groups and economically acceptable to individual veterans. A subsidy of 2 percentage points on a new loan volume of \$1 billion outstanding would mean a \$20 million annual outlay.

This type of insurance or guaranty scheme is a legitimate and forthright use of the interest-rate subsidy. Moreover, the cost to the State's taxpayers would be clearly evident in contrast to the cost of the present type of subsidy which is indirect and obscure.

A State-supported private loan program would necessitate complete restructuring of the Cal-Vet program. A small control and standards group could (a) handle the gradual liquidation of the present program; and (b) administer the insurance or guaranty agreements between private financial institutions and the State. Furthermore, it is unlikely that private financial institutions would accept all of the Cal-Vet contract terms. For example, the State probably could not retain title to properties so financed and underwritten. Also, a fixed installment-payment requirement would not be necessary if the agreement prevented a change in interest rates while a contract was in force. Reasonable monthly installment payments could perhaps be attained by varying the maturity of each contract. Mandatory credit and disability insurance is novel to most lenders and fire insurance coverage, no doubt, would have to be negotiated by the borrowers.

Adoption of this method would raise many knotty problems. Among them is the question whether eligible veterans who are now mortgagors of private financial institutions would not be entitled to an interest-rate subsidy or other fringe benefits under the new program, and retroactively. If so, the costs to the State would be far greater than stated above.

### Summary

The primary benefits of the Cal-Vet program are chiefly personal benefits. The interest-rate subsidy and fringe insurance benefits favor a limited

number of veterans many of whom have incomes and assets that are sufficient for obtaining home financing from private sources. The primary costs are chiefly social costs, in the form of higher bond interest rates paid by all borrowing public bodies in the State and borne by their taxpayers.

The secondary benefits and costs are not as easily identified or ascertained. The personal benefits are essentially consumption benefits; it is quite uncertain whether the program adds to the productivity of individuals. Imported capital and lower interest rates can be considered social benefits but other public investment programs can accomplish the same purposes. Discrimination among veterans is perhaps the major personal secondary cost. The major secondary social cost is the amount of income or benefits lost by investing in Cal-Vet than in other public projects yielding higher returns to more people.

The question of liquidation or continuation of the program is more political than economic. Termination and liquidation would likely generate an irresistible demand for a cash bonus to the remaining veterans. A portion of the bonus could be recovered from the assets remaining at the end of the liquidation period. If the program is continued, the two major social costs might be tackled by (a) providing for an alternative method of financing, and (b) limiting the scope of the program.

Regardless of the alternative method of financing selected, one unresolved problem would remain. No substitute arrangement eliminates the continuous impact of the \$1 billion in Cal-Vet bonds outstanding on State and local finances. The funds have to be repaid to bond holders. The best method for removing this burden would be some form of refinancing. Refinancing could be accomplished by the sale of revenue bonds or by other means, if the program were converted to a public corporation status. If market interest rates remain high, refinancing could be quite costly.

Termination of new Cal-Vet bond issues would provide the greatest immediate relief to bond costs and sales of State and local public bodies. As a substitute, a revolving fund limited in amount to existing loan balances in force would drastically reduce the volume of new loans. If such a sharp reduction were to be avoided, temporary financial aid by the State would be required. The smallest immediate outlay would occur if the State underwrote loans from private sources even if a nominal interest-cost subsidy were involved. The outlay would be much larger if eligible veterans with existing home loans from private lenders were given a similar interest-cost subsidy.

In the final analysis, continuance of the program as it is now financed may well be the least costly to the State, as compared to the alternatives outlined above, and the most acceptable to the electorate. In such an event, new legislation restraining the type and volume of loans would seem to be warranted.

## Notes



## Notes

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### I. Introduction

<sup>1</sup> Louis Fier, "The Fiscal Economics of State Bonuses for Veterans." Abstract of Ph.D. dissertation at New York University in 1958, *The Journal of Finance*, March 1959, p. 84.

<sup>2</sup> For a history of earlier public financing of housing, see Twentieth Century Fund, *Housing for Defense* (New York: Twentieth Century Fund, 1940).

<sup>3</sup> J. Marvin Russell, "Federal and States' Benefits for Veterans." Address before the General Assembly of the Council of State Governments, Chicago, Illinois, December 5, 1958, p. R-20.

<sup>4</sup> *Report to Governor Edmund G. Brown and the California Veterans Board*, Department of Veterans Affairs, Sacramento, California, p. 4.

<sup>5</sup> Personal letter from Mr. J. C. Seidel, Bureau of Public Information and Reports, Division of Housing, State of New York to the author, dated August 19, 1959.

<sup>6</sup> Personal letters from D. C. Sutherland, Vice President, Bank of America, San Francisco, to the author, dated April 10, 1959 and October 21, 1960.

<sup>7</sup> Personal letter from Mr. Frank D'Aleo, City Mortgages, Metropolitan Life Insurance Company, New York City, to the author, dated October 26, 1960.

<sup>8</sup> "Statement of Condition," Home Savings and Loan Association, Los Angeles, January 1, 1960.

<sup>9</sup> *Housing Statistics, Historical Supplement*, Housing and Home Finance Agency, Washington, D.C., June 1960, p. 212.

<sup>10</sup> Testimony presented at Assembly Interior Committee Hearings on Military and Veterans Affairs, *Transcript of Proceedings*, November 18, 1957, pp. 66-67.

<sup>11</sup> Sherman J. Maisel, "Government Aids to Financing Private Purchases of Houses," *Study of Mortgage Credit*, Committee on Banking and Currency, Subcommittee on Housing, United States Senate, 85th Congress, 2nd Session, December 22, 1958, p. 389; also William L. C. Wheaton, "Housing Credit for Middle-Income Families," *loc. cit.*, p. 379; also Charles Abrams and Morton Schussheim, "Credit Terms and Effective Demand for New Housing," *loc. cit.*, p. 84.

<sup>12</sup> *Report of the Senate Interim Committee on Housing and Recreational Needs of the Elderly*, Senate, State of California, Sacramento, 1959, p. 51.

### II. The Cal-Vet Home Loan Program

<sup>1</sup> (\*) See text.

<sup>2</sup> Edith E. Wood, *Recent Trends in American Housing* (New York: The Macmillan Company, 1931), p. 250.

<sup>3</sup> Dorothy Schaffter, *State Housing Agencies* (New York: Columbia University Press, 1940), pp. 180-237.

<sup>4</sup> *Minimum Property Standards for One and Two Living Units* (Washington, D.C., Federal Housing Administration, FHA No. 300, November 1, 1958).

<sup>5</sup> The Veterans Administration estimated a smaller number of veterans residing in California than did the State's Department of Veterans Affairs. The latter estimated a total of 2,300,000 veterans as of July 15, 1958 while the Veterans Administration estimated 1,982,000 veterans of which 295,000 were World War I Veterans, 1,326,000 were from World War II, and 361,000 were Korean conflict veterans. Veterans Administration data in a personal letter from Mr. P. N. Brownstein, Director, Loan Guaranty Service, Veterans Administration, Washington, to the author, dated February 9, 1959. As an aside, it is interesting to note that some 1,195,307 veterans qualified for property tax exemptions in the State of California in 1959. Exemptions are based on value of asset holdings; out-of-State veterans residing in California are eligible, too. "Veterans Exemptions Make Up Major Part of All in State; 1,195,037 Qualified," *News Bulletin*, California State Department of Veterans Affairs, November 1959, p. 2.

<sup>6</sup> *Report for the Month of July 1958*, Department of Veterans Affairs, State of California, Sacramento.

<sup>7</sup> *Transcript of Proceedings*, Assembly Interim Committee on Military and Veterans Affairs, State Legislature, Los Angeles, California, February 17, 1958, p. 45.

<sup>8</sup> "Survey of Cal-Vet Loans, 4th Quarter, 1955," Department of Veterans Affairs, State of California, December 30, 1955, p. 1.

<sup>9</sup> Section 986.9 of the code is more specific and in part states: "The Department shall fix the selling price of the property by adding to the purchase price thereof, to the total cost of improvements constructed, or to the value of such property as determined by the department when such property is acquired by the department in a manner other than by purchase, all expenses incurred and estimated to be incurred by the department in relation thereto, inclusive of interest, administration, appraisals, examination of title, incidental expenses, and the sum deemed necessary to meet unforeseen contingencies." *Military and Veterans Code*, State of California (Printing Division, Sacramento, California, 1957) p. 106.

<sup>10</sup> Personal letter from R. M. Park, Accounting Officer, Division of Farm and Home Purchases, Department of Veterans Affairs, Sacramento, California, to the author, dated November 28, 1958.

<sup>11</sup> *Report to Governor Edmund G. Brown and the California Veterans Board*, Department of Veterans Affairs, June 1960, p. 7.

<sup>12</sup> *Report for the Month of November 1956*, Department of Veterans Affairs, November, 1956, p. 2.

<sup>13</sup> Section 987, *Military and Veterans Code*, *op. cit.*, p. 108.

<sup>14</sup> For example, a \$10,000, 20-Year, 3-percent loan calls for a \$55.46 monthly payment. A 4-percent loan would call for \$60.60 to amortize \$10,000 in 20 years. By law, the payment would remain at \$55.46 which would amortize the \$10,000, 4-percent loan in about 23 years. It would cost the veteran about \$760 more to amortize the loan at \$55.46 for 23 years than at \$60.60 per month for 20 years.

<sup>15</sup> The committee is composed of the Governor, State Treasurer, State Controller, State Director of Finance, and the Director of the Department of Veterans Affairs. The manager of the Division of Farm and Home Purchases acts as Secretary, and the State Attorney General, as the committee's legal advisor.

<sup>16</sup> At the Legislative hearings, for example, it was made quite apparent that the Board did not initiate or recommend the increase of the loan limit from \$8,500 to \$15,000 or the elimination of the maximum allowable purchase value of a home. *Transcript of Proceedings*, November 18, 1957, *op. cit.*, pp. 48-54.

<sup>17</sup> Supposedly, the Director is to administer the policies of the Board and the Legislature. However, some ambivalence in administration may develop with a change of Governors, as occurred in 1959. A new Governor appointed a new Director who served a Board appointed by the preceding Governor of an opposing political party.

<sup>18</sup> In 1959, the Director decided that the Division was overstaffed and proceeded to cut 57 positions from the payroll at an estimated saving of \$537,000 annually, but against the opposition of veterans' groups. "Veterans' Affairs Director Defends Staff Reductions," *Pasadena Star-News*, November 21, 1959.

### III. Financial Management of Cal-Vet's Operations

<sup>1</sup> Letter from Mr. H. J. Johnson, Manager, Farm and Home Purchase Division, Department of Veterans Affairs, Sacramento, California, to the author, dated April 14, 1960.

<sup>2</sup> Section 987.11, *Military and Veterans Code* (Sacramento, State of California, 1957), p. 112.

<sup>3</sup> Schaffter, *op. cit.*, p. 206.

<sup>4</sup> In comparison, foreclosure rates in that period for other lending institutions in the United States, based on the dollar amount of home loans made in 1930-34, were as follows: life insurance companies, 21.1 percent; commercial banks, 6.4 percent; savings and loan associations, 14.0 per cent. J. E. Morton, *Urban Mortgage Lending* (New York: National Bureau of Economic Research, 1956), p. 100.

<sup>5</sup> Letter from J. Marvin Russell, Manager, Division of Farm and Home Purchases, Department of Veterans Affairs, Sacramento, California, to the author, dated February 20, 1959.

<sup>6</sup> Letter from Mr. G. J. Ziser, Assistant Manager, Division of Farm and Home Purchases, Sacramento, California, to the author, dated November 2, 1960.

<sup>7</sup> For a cumulative income-expense statement for the 1921-1941 period, see Schaffter, *op. cit.*, p. 226.

<sup>8</sup> *Report for the Month of June, 1958*, Department of Veterans Affairs, Sacramento, California, June 1958, p. 9.

<sup>9</sup> "State Veterans' Unit to Economize," *Pasadena Star-News*, November 10, 1959.

<sup>10</sup> See 702, *Military and Veteran's Code, op. cit.*, p. 91.

<sup>11</sup> *Report for the Month of June, 1957*, Department of Veterans Affairs, Sacramento, California, June 1957, p. 7.

<sup>12</sup> At a legislative committee hearing in 1957, the manager of the Cal-Vet program testified that the Division of Farm and Home Purchases had sufficient excess capacity to process twice as many contracts as it did in November 1957. *Transcript of Proceedings*, November 18, 1957, *op. cit.*, p. 17.

<sup>13</sup> Made effective in September, 1953. Section 6950, Chapter 9, Financial Code, Volume 30, *West's Annotated California Codes* (St. Paul, West Publishing Company, 1955), p. 482.

<sup>14</sup> Memorandum from Mr. Alan L. Wilson, Management Analyst, Division of Farm and Home Purchases, Department of Veterans Affairs, Sacramento, California, to the author, dated March 13, 1959.

<sup>15</sup> Letter from Mr. H. J. Johnson, Manager, Division of Farm and Home Purchases, Department of Veterans Affairs, Sacramento, California, to the author, dated May 12, 1961.

### IV. Cal-Vet Bond Financing

<sup>1</sup> "Veteran Units All-Out to See Bonds Passed," *News Bulletin*, California State Department of Veterans Affairs, Sacramento, California, October, 1958, p. 1.

<sup>2</sup> "November Ballot Propositions," *Tax Digest*, August, 1958, p. 174; "State, County and City Ballot Measures, General Election, November 4, 1958," Los Angeles Chamber of Commerce, 1958, p. 5; Memorandum, "Proposition #1—\$300,000,000 Bond Issue for Veterans Home and Farm Loan Program," from Tax Section to Board of Directors, San Francisco Chamber of Commerce, July 7, 1958, and approved by the latter on July 17, 1958.

<sup>3</sup> Editorial, "A Final Yes on Veterans' Bonds," *Los Angeles Times*, June 5, 1960; "California Veterans Loan Program Draws Organized Opposition," *The Wall Street Journal*, May 27, 1960, p. 11.

<sup>4</sup> "Proposition No. 1, Re: Veterans Bond Act of 1958 (\$300,000,000)." State and Local Government Committee Report to the Board of Directors of the Los Angeles Chamber of Commerce, September 15, 1958, pp. 5 and 6.

<sup>5</sup> *The Bond Buyer*, August 23, 1958, p. 8.

<sup>6</sup> "The Government Securities Market," *Federal Reserve Bulletin*, August 1959, p. 865.

<sup>7</sup> "State of California," *Moody's Municipal and Government Manual*, 1958, p. 170.

<sup>8</sup> *A Statement on \$50,000,000 Construction Bonds and \$50,000,000 Veterans' Bonds to be Sold March 11, 1959*, prepared by Bert A. Betts, State Treasurer, Sacramento, California, February 1959, p. 6.

<sup>9</sup> State Controller, *1960 Annual Report*, Sacramento, California, p. 6.

<sup>10</sup> "California Water Resources Development Bond Act," Chapter 1762, *Statutes of California, 1958 & 1959*, Vol. 2, State of California, Sacramento, California, p. 4237.

<sup>11</sup> *Moody's Bond Survey*, September 26, 1960, p. 261.

<sup>12</sup> Quotation from a personal letter from Mr. D. M. Ellinwood, Vice President Moody's Investors Service, New York, to the author, dated January 20, 1959. Mr. Ellinwood elaborated on the quoted statement by stating, in part, "Particular consideration is given to the possible capital needs and revenue requirements of all governmental units imposing both direct and indirect taxes on the business life of the community whose affairs are under study. Ratings are reviewed periodically. Constituted as they are, ratings do not change with each review. In other words, they do not change in reflection of annual or sometimes even of decennial changes in the current financial standing of a community. Ratings are revised only as Moody's is convinced that long-term risks are increasing or waning."

<sup>13</sup> "New York Banker Says California Will Pay Higher Costs for Bonds," *The Wall Street Journal*, November 29, 1960, p. 14.

<sup>14</sup> The State has postponed sales in the hope of better terms later. For example, an October 1958 sale was postponed until after the November 1958 election because a favorable vote on Proposition 17 would have changed the State's revenue base. "Cal. Postpones Oct. Sale of \$100 Million Bonds to Dec. 3," *The Bond Buyer*, August 23, 1958, p. 1. Also, the December 1959, \$100 Million sale was postponed to January 1960 because of unfavorable bond market conditions, "Municipal Prices Sag, Near 25-year Lows; Inventories Up," *The Wall Street Journal*, December 14, 1959, p. 14.

<sup>15</sup> "California Sells \$100 Million Veterans Bonds at 3.2276%," *The Bond Buyer*, July 26, 1958, p. 1.

<sup>16</sup> For a more detailed account, see Alan K. Browne, "California Municipal Bond Financing," Address given at the Thirtieth Annual Convention of California County Treasurers, Ojai, California, June 12, 1957, pp. 7-8.

<sup>17</sup> Letter from J. Marvin Russell, Manager, Division of Farm and Home Purchases, Department of Veterans Affairs, Sacramento, California, to the author, dated October 9, 1959.

<sup>18</sup> Browne, *op. cit.*, p. 8.

<sup>19</sup> "California Awards \$100 Million Bonds to Bank-Led Group," *The Wall Street Journal*, March 12, 1959, p. 15.

<sup>20</sup> United States Government securities, in comparison, are sold at substantially lower margins. Treasury long-term bonds carry a spread between bid and asked prices of less than one-fourth of 1 percent while the spread on Treasury bills is as low as a few one-hundredths of 1 percent. "The Government Securities Market," *op. cit.*, p. 877. Non-guaranteed Federal farm loan bonds of 10 to 16 year maturities have been marketed on a fixed-commission basis of \$3.50 per \$1,000 bond since 1945. See Table, "Public Offerings of Consolidated Federal Farm Loan Bonds Since January 1945," released by the Finance Division, Farm Credit Administration, Washington, D.C., November 10, 1959.

<sup>21</sup> For a statement of the problems faced by dealers selling a high volume of bonds, see Alan K. Browne, "California in the Next Decade," Address before the Annual Spring Meeting of the Southwestern Group, Investment Bankers Association of America, Kansas City, Missouri, March 13, 1959, p. 7.

<sup>22</sup> "Brown Fights Cal-Vet Bond Interest Hike," *Los Angeles Times*, June 11, 1959.

<sup>23a</sup> Added evidence of the advantage of multiple bids to the State was provided by an August 1961 bond sale of \$100 million in which a syndicate group headed by the

Bank of America offered a net interest cost to the State of 3.86 percent while a smaller Eastern bidder purchased the issue with a bid of 3.75 percent. "California awards \$100-million offering to New York Bond House," *Business Week*, p. 116.

<sup>23</sup> The author could find no central source of data for marketing margins on municipal bonds.

## V. The Program's Role in the Housing and Mortgage Markets

<sup>1</sup> James M. Gillies and Frank G. Mittelbach, "How Big is the California Real Estate Market," *California Real Estate Magazine*, September 1958, p. 5.

<sup>2</sup> *Statistical Abstract of the United States* (Washington, D.C. Government Printing Office, 1925), pp. 29-30.

<sup>3</sup> 1960 Census of Housing, U. S. Department of Commerce, Bureau of the Census, *Advance Reports*, HC (A1)-5.

<sup>4</sup> United States Department of Commerce, Bureau of Census, *Mortgage on Homes* Census Monographs II (Washington, D.C. Government Printing Office, 1923), pp. 22-23.

<sup>5</sup> *Statistical Abstract of the United States* (Washington, D.C. Government Printing Office, 1949), p. 835.

<sup>6</sup> The Survey Research Center of the University of Michigan found that 56 percent of all home owners interviewed in 1959 reported that their homes were mortgaged. "Housing of Nonfarm Families," *Federal Reserve Bulletin*, September 1959, p. 1102.

<sup>7</sup> To permit comparisons, Cal-Vet's home loans were added to the recorded nonfarm mortgage volumes presented in Table 24.

<sup>8</sup> The performance of the Federally-sponsored home loan programs was about the same nationally as in California. See, *Savings and Loan Fact Book*, 1959, United States Savings and Loan League, Chicago, p. 42. Many writers have called attention to the unstabilizing rather than the intended stabilizing effects of these programs on the home construction industry. For example, see Leo Grebler, David M. Blank, Louis Winnick, *Capital Formation in Residential Real Estate*, Princeton University Press, 1956, pp. 238-250; Warren L. Smith, "The Impact of Monetary Policy on Residential Construction 1948-58," U. S. Senate Subcommittee on Housing, Committee on Banking & Currency, 85th Congress, 2nd Session, *Study of Mortgage Credit*, Dec. 22, 1958, pp. 252-255; and Leo Grebler, *Housing Issues in Economic Stabilization Policy*, Occasional Paper No. 72, New York: National Bureau of Economic Research, 1960.

<sup>9</sup> World War II veterans' eligibility scheduled to terminate on July 25, 1960 was extended to 1962. It was originally to have terminated on July 25, 1957. The eligibility of Korean War veterans is to terminate February 1, 1965. *Federal Benefits for Veterans and Dependents*, Veterans Administration, VA Fact Sheet 1S-1, January 1959, p. 17, and "Congress Revives Dying GI Programs," *House and Home*, August, 1960, p. 42.

<sup>10</sup> See, Annual Reports of the Administrator, Veterans Administration. Also, *GI Loans, The First 10 Years*, Veterans Administration pamphlet 4A-11, June 22, 1954. Daniel B. Rathbun, "The Veterans' Home-Loan Program: Success or Failure?" *The Appraisal Journal*, July 1954. Paul F. Wendt, *The Role of the Federal Government in Housing*, American Enterprise Association, Inc. 1956, pp. 6-8.

<sup>11</sup> Figures contained in a letter and attachments from Mr. P. N. Brownstein, Director, Loan Guaranty Service, Veterans Administration, Washington, D.C., to the author, dated February 9, 1959.

<sup>12</sup> *Statement of the Veterans' Administration Before the Committee on Veterans' Affairs*, House of Representatives, United States Congress, May 25, 1960, p. 8.

<sup>13</sup> "Congress Revives Dying GI Programs," *House and Home*, *op. cit.*

<sup>14</sup> Letter from Mr. P. N. Brownstein, Director, Loan Guaranty Service, Department of Veterans Affairs, Veterans Administration, Washington, D.C., to the author, dated February 24, 1960.

<sup>15</sup> *Annual Report, 1960*, Administrator of Veterans Affairs (Washington, D.C. Government Printing Office, 1961), p. 84.

<sup>16</sup> *GI Loans, The First 10 Years*, *op. cit.*, pp. 21-22.

<sup>17</sup> Leo Grebler, *Housing Issues in Economic Stabilization Policy*, *op. cit.*, p. 39.

<sup>18</sup> *Annual Report*, 1958, Administrator of Veterans Affairs, Washington, D.C. Government Printing Office, 1959), p. 67.

<sup>19</sup> *Annual Report*, 1960, *op. cit.*, p. 83.

<sup>20</sup> *Ibid.*, p. 87.

<sup>21</sup> In this connection, it is of interest to note that the median loan-to-value ratios for all FHA borrowers in California in 1959 was 92.9 percent for new single-family homes and 91.8 percent for existing single-family homes. *Data for States and Selected Areas on Characteristics of FHA Operations Under Section 203*, Federal Housing Administration, 1959, Table 41S.

<sup>22</sup> Rathbun reports that more than one-half of the home buying veterans (Federal) could not have purchased the homes they did if down payments had not been reduced or eliminated. Daniel B. Rathbun, *op. cit.*

<sup>23</sup> *G.I. Loans, The First Ten Years*, *op. cit.*, pp. 3 and 16.

<sup>24</sup> *Annual Report*, 1960, *op. cit.*, p. 83 FHA maturities on California single-family home loans in 1959 averaged 29.4 years for new homes and 25.8 years on existing homes. *Data for States and Selected Areas On Characteristics of FHA Operations Under Section 203*, *op. cit.*, Table 39S.

<sup>25</sup> Grebler, *op. cit.*, pp. 122-123.

<sup>26</sup> Whenever government bond yields rose in the post-World War II period, VA and FHA loan volumes declined. Albert H. Schaaf, "Federal Mortgage Interest Rate Policy and the Supply of FHA-VA Credit," *Review of Economic Statistics*, November, 1958, p. 385.

<sup>27</sup> Many economists argue that as long as VA-FHA rates are not determined in the money market, the flow of funds to government-sponsored home financing programs will be erratic and inadequate. See, for example, James J. O'Leary, "The Effects of Monetary Policies on the Residential Mortgage Market," *Study of Mortgage Credit*, *op. cit.*, pp. 240-243, and Grebler, *op. cit.*, p. 92.

<sup>28</sup> Douglas V. Cannon, "The Strength and Weakness of Western Housing Markets," *Land Economics*, November 1958, p. 323.

<sup>29</sup> "California Second Trust Deed Boom: Will it Explode?" *House and Home*, May 1960, p. 54. See also, Leo Grebler and James Gillies, *Junior Mortgage Financing in Los Angeles County 1958-1959* (Research Report No. 2, December 1960, Real Estate Research Program, University of California, Los Angeles).

<sup>30</sup> California accounted for roughly 20 percent of FNMA's secondary market operations in 1958 in the dollar volume of mortgages purchased; Texas accounted for about 12 percent. Since November 1, 1954, \$412,522,752, or about 22 percent of the total of \$1,941,189,763 invested by FNMA in real estate mortgages, were invested in California residential mortgages. *12th Annual Report*, 1958, Housing and Home Finance Agency, Washington, D.C., p. 230.

<sup>31</sup> It is estimated that 60 percent of the bonds are held outside the State. Letter from H. J. Johnson, Manager, Division of Farm and Home Purchases, Department of Veterans Affairs, Sacramento, California, to the author, dated May 12, 1961.

<sup>32</sup> See, for example, Assembly Interim Committee on Military and Veterans Affairs, *Transcript of Proceedings Of Hearings* held on January 28, 1956, November 18, 1957 and February 17, 1958, State Capitol, State of California, Sacramento, California.

<sup>33</sup> Letter from Mr. Neill Davis, Executive Vice-President, California Savings and Loan League, to the author, December 5, 1958. Later Mr. Davis defined overextended to mean, "extended to the point where it has become a significant factor in the interest cost on bonds issued by the State of California." Personal letter to the author, dated September 29, 1960.

<sup>34</sup> Letter from Mr. Albert F. Knorp, Executive Secretary, Home Builders Council of California, to the author, dated December 2, 1958.

<sup>35</sup> Reed Robbins, "Realtors Need Thorough Knowledge of Cal-Vet Loans to Service Buyers," *California Real Estate Magazine*, June 1960, p. 27.

<sup>36</sup> *Report to Governor Edmund G. Brown and the California Veterans Board*, Department of Veterans Affairs, Sacramento, California, May 1960, p. 2.

<sup>37</sup> Reed Robbins, Cal-Vet News, *California Real Estate Magazine*, May 1960, p. 21.

<sup>38</sup> Letter from H. J. Johnson, *op. cit.*, dated May 12, 1961.

## VI. Cal-Vets and Their Housing

<sup>1</sup> The t-values of the samples for the two periods and four variables tested are as follows:

Variables	1956-57	1959
Amount of home loan .....	1.09	.26
Appraisal value .....	.92	.26
Price paid by veteran .....	.29	.007
Monthly installment payments.....	.35	.032

All of the above values are below the probability of 5 percent indicating that the variables are representative of the parent population. The t-test formula employed is:

$$t = \frac{\bar{Y}_1 - \bar{Y}_2}{S^2 \sqrt{\frac{1}{Y_1} + \frac{1}{Y_2}}}$$

Bernard Ostle, *Statistics in Research* (Ames, Iowa, The Iowa State College Press, 1954), p. 98.

<sup>2</sup> The largest number of veterans in the United States is in the 35-44 year age bracket, with the 25-34 year olds second in number. Together they account for about 60 percent of all living veterans. See, California State Department of Veterans Affairs, *News Bulletin*, January, 1961, p. 6.

<sup>3</sup> Between March 1958 and March 1961, the number of veterans obtaining loans from Cal-Vet increased as follows: World War I, 1.9 percent; World War II, 37.2 percent; Korean, 130.6 percent. The over-all increase averaged 43.5 percent. Numerically, World War II veterans obtaining loans increased the most.

<sup>4</sup> The average size of all households in California in 1960 was 3.05 persons. The average size of households occupying single-family dwelling units was probably in the neighborhood of 3.85 persons. United States Department of Commerce, Bureau of Census, *Advance Reports, General Population Characteristics, California*, PC (A2-1, March 31, 1961), p. 5.

<sup>5</sup> The reliability of reported income is open to question. Underreporting of income is more likely than overreporting particularly in applications for subsidized public loans. Cal-Vet, however, checks income statements with employers. If there is any gross underreporting, it is in the "other" income category.

<sup>6</sup> FHA considers "effective" income to be a mortgagor's dependable, continuing income, after taxes. Part-time income of an employed wife is not considered as dependable, continuing income. Thomas G. Camp, *Estimating Ability to Pay for a Home*, Federal Housing Administration, Washington, D.C., June 1957, p. 2. Cal-Vet uses the FHA "effective" income concept as the basis for making loans.

<sup>7</sup> Federal Housing Administration, *Data for States and Selected Areas, on Characteristics of FHA Operations Under Section 203*, 1959, Table 53 S. It should be noted that Cal-Vet averages are based on a sample while FHA averages are from totals. But the sample averages for Cal-Vet's appraisal values and prices paid by veterans were above similar averages for all Cal-Vet loans made in 1959 (See Appendix N, Table N-1).

<sup>8</sup> Herman P. Miller, *Income of the American People* (New York: John Wiley and Sons, 1955), p. 65.

<sup>9</sup> For example, a U. S. unemployment study in 1959 showed that for men under 45 years of age veterans experienced less unemployment than did non-veterans; above 45 there was little difference. The study showed, too, that three out of four veterans were under age 45, the prime income-earning age group. Reported in California State Department of Veterans Affairs, *News Bulletin*, January 1961, p. 6.

<sup>10</sup> New 1-family homes built in 1956 averaged 1,280 square feet in the West (70 percent were built in California). This is above the average size of 1,189 financed by

Cal-Vet, but most of Cal-Vet financing was of older houses. For the Western data see Kathryn R. Murphy, "Characteristics of New 1-Family Houses, 1954-56," *Construction Review*, April 1957, p. 6.

<sup>11</sup> About 33 percent were new-home FHA loans. Federal Housing Administration, *op. cit.*, Table 45 S.

<sup>12</sup> *Ibid.*

<sup>13</sup> Based on sample for full year of 1956, and first half of 1957; total contracts for last half of 1958 and first half of 1959.

<sup>14</sup> Because of the stratification of the sample into so many classifications (17 districts) the averages by districts tend to lose some of their t-value reliability. However, the percentage of cases by districts in the sample was almost the same as the percentage of cases by districts for the parent population. The major deviation was for district 33 (West Covina) which had a noticeably higher representation in the sample than in the total group. This meant that other districts had slightly less but the deficiency was spread thinly over many districts.

<sup>15</sup> Federal Housing Administration, *op. cit.*, Table 41 S.

<sup>16</sup> The Heller Committee budget shows housing as taking 16.7 percent of the total cost of this family's budget. However, about 4 percent of this included taxes, fire and mortgage insurance, and repairs. The total cost of the Heller budget, which provided for no liquid saving, but included income taxes was about the same (\$6,638) as the \$6,960 annual income, after taxes, of the average Cal-Vet borrower. Heller Committee for Research in *Social Economics, Quantity and Cost Budgets for Two Income Levels* (Berkeley: University of California, 1960) pp. 56 and 66.

<sup>17</sup> William I. Greenwald, *Buy or Rent?* (New York: Twayne Publishers, Inc., 1958), p. 71.

<sup>18</sup> Fred E. Case, *Cash Outlays and Economic Costs of Homeownership*, Real Estate Research Program, Bureau of Business and Economic Research, University of California, Los Angeles, 1957, p. 15.

<sup>19</sup> Walter A. Morton, *Housing Taxation* (Madison, Wisc., The University of Wisconsin Press, 1955), p. 38.

<sup>20</sup> Bureau of Labor Statistics, *Construction*, February 1952, p. 3.

## VII. Benefits and Costs: An Appraisal of the Cal-Vet Program

<sup>1</sup> Julius Margolis, "Secondary Benefits, External Economies and the Justification of Public Investment," *Review of Economics and Statistics*, August, 1957, p. 284.

<sup>2</sup> For a good exposition of welfare economic problems, see Kenneth E. Boulding, "Welfare Economics," Bernard F. Haley, Editor, *A Survey of Contemporary Economics* (Homewood, Ill., Richard D. Irwin, Inc., 1952), pp. 1-34.

<sup>3</sup> A recent Federal study defined a subsidy as follows: "A subsidy is an act by governmental unit involving either (1) a payment, (2) a remission of charges, or, (3) supplying commodities or services at less than cost or market price, with the intent of achieving a particular economic objective, most usually the supplying to a general market a product or service which would be supplied in as great quantity only at a higher price in the absence of the payment or remission of charges. Joint Economic Committee, Congress of the United States, *Subsidy and Subsidylike Programs of the U. S. Government* (Washington, United States Government Printing Office, 1960) p. 8.

<sup>4</sup> The 6-percent rate among savings and loan associations was quite prevalent in 1955 when Cal-Vet was charging only 3 percent. David A. Alhadeff and Charlotte P. Alhadeff, "The Struggle for Commercial Bank Savings," *The Quarterly Journal of Economics*, February 1958, p. 19.

<sup>5</sup> It is argued by many that the gain to the State (in this case, California veterans) is less than the loss to the Federal Treasury inasmuch as the wealthy buyers of tax-exempt bonds generally obtain after-tax yields that are higher than the yields on taxable investments. See, for example, Louis Winnick, *Rental Housing* (New York: McGraw-Hill Book Company, Inc.), 1958, p. 260.

<sup>6</sup> This could be obtained by discounting the amount of the monthly savings forward to the present, or by noting that for the \$77.62 monthly payment required to amortize \$12,800 @ 4 percent in 20 years, a borrower could amortize only \$10,800 @ 6 percent in 20 years.

<sup>7</sup> This same observation has been made for the VA and FHA programs. Albert H. Schaaf, "Federal Mortgage Interest Rate Policy and the Supply of FHA-VA Credit," *Review of Economic Statistics*, November 1958, p. 386.

<sup>8</sup> For such a proposal advanced for Federal programs, see Charles Abrams and Morton Schussheim, "Credit Terms and Effective Demand for New Housing," in Committee on Banking and Currency, Subcommittee on Housing, United States Senate, 85th Congress, 2nd Session, *Study of Mortgage Credit* (Washington: Government Printing Office), 1958, p. 85.

<sup>9</sup> Boulding, *op. cit.*, p. 13. Renshaw, with respect to navigation benefits, states "...reimbursability might be the best insurance the public could have that expected benefits from public investment in navigation equal or exceed expected costs." Edward F. Renshaw, "A Note on the Measurement of the Benefits from Public Investment in Navigation Projects," *American Economic Review*, September 1957, p. 662.

<sup>10</sup> Julius Margolis, "The Economic Evaluation of Federal Water Resource Development," *American Economic Review*, March 1959, p. 103. Hirshleifer argues that on water development projects in California, "...the estimated costs and benefits of government projects should be discounted at a rate at least as high as the private utility marginal opportunity rate." This he estimated to range between 8.25 and 10 percent, depending on the type and amount of taxes included. Jack Hirshleifer, "Water Supply for Southern California—Rationalization or Expansion?" *Proceedings of the Thirty-Fifth Annual Conference of the Western Economic Association*, August 24–26, 1960, p. 48.

<sup>11</sup> Warren S. Gramm, "Criteria for Public Investment," *Proceedings of the Thirty-Fifth Annual Conference of the Western Economic Association*, August 24–26, 1960, p. 60. The economic justification of most public investment projects usually begins with a determination of costs, which include the lowest possible bond-interest rate and no taxes, and then calculating the necessary repayments to cover the estimated costs of producing the goods or services. See S. V. Ciriacy-Wantrup, "Benefit-Cost Analysis and Public Resource Development," *Journal of Farm Economics*, November 1955, p. 689, for a discussion of cost-repayment problems in public projects.

<sup>12</sup> T. W. Schultz, "Investment in Human Capital," *American Economic Review*, March 1961, footnote 15, p. 12.



## Appendices

## APPENDIX A

# Comparative Analysis of State and Federal Veterans Farm and Home Loan Programs, August 31, 1958

		State Program	Federal Program
A. General Features		Farm, Home, and Improvement	Farm, Home, and Business
1. Eligibility:			
a. <i>Service:</i>			
	World War I	April 5, 1917, to November 11, 1918	No entitlement
	World War II	Dec. 7, 1941 to Dec. 31, 1946	Sept. 6, 1940 to July 25, 1947
	Korean Conflict	June 27, 1950 to January 31, 1955	June 27, 1950 to January 31, 1955
		In both programs the veterans must have served for at least a period of 90 days (except World War I veterans) or have a war service-connected disability.	
b. <i>Residence:</i>		The veteran must have been a "native" of California or a bona fide resident (no required period of time—Section 244, Government Code) on entry into active service.	Any serviceman who was discharged under conditions other than dishonorable.
c. <i>Widow:</i>		Only if becomes widow after veteran has filed application.	Widows, not remarried, of veterans whose death was incurred as a result of military service.
2. Entitlement:		One entitlement for service in each of the three conflicts noted above. Separate entitlement for husband and wife if both are veterans. No limitation as to time of filing application. Each entitlement is used completely for each loan regardless of amount of loan.	One entitlement for service in each of the two conflicts noted above. If served in both conflicts, World War II entitlement canceled by Korean discharge. Separate entitlement for husband and wife if both are veterans. Present limitations for filing WWII—July 25, 1960; Korean—January 31, 1965. Each entitlement may be used as follows: \$7500 for residential property or farm with residence; \$4000 for farm or business realty; \$2000 for non-real estate purposes. The amount of non-real estate entitlement used is doubled and subtracted from other entitlement to determine remainder available. Likewise, a use of any realty entitlement directly reduces remaining realty entitlement and reduces by 50% of the amount used the available non-realty entitlement. Remaining realty entitlement may be used later. (See Section B for further details).
3. Property Requirements:			
a. <i>Location of Property:</i>		Must be located in California.	May obtain in one state for property in another.

b. <i>Type of Property:</i>	Single-family dwellings, existing, or under construction for a specific veteran and meeting Departmental requirements. Also, farms with improvements. Income properties may not be purchased.	Single-family dwellings, farms or businesses, and multiple dwellings or cooperative apartment houses with single or pooled entitlements. One veteran may buy houses with not more than 4 dwelling units provided he lives in one unit. One additional unit may be acquired for each additional veteran when entitlements are pooled. May be a purchase or construction loan.
c. <i>Residency:</i>	Must reside in home or on farm within 60 days from date of purchase or completion.	Must reside on property if a home. Need not reside on a farm, but must supervise operations.
4. Number of Loans:	Only one loan at one time regardless of whether both husband and wife have separate entitlement. Generally only one loan per entitlement. (See exceptions under "Replacement Purchase per Entitlement" below.)	Veteran husband and veteran wife, or any two or more veterans, may pool entitlements to receive larger loan guarantee for purchase of multiple dwelling or business. Successive loans can be obtained until entitlement guarantees exhausted.
5. Replacement Purchase per Entitlement:	Permitted for: <ol style="list-style-type: none"> <li>Involuntary transfer of employment.</li> <li>Change of location required by health of a veteran or his family.</li> <li>Inadequacy of the property for use of veterans or family.</li> <li>Structural defects.</li> <li>Condemnation.</li> </ol>	Permitted for: <ol style="list-style-type: none"> <li>Destruction of property by fire or other natural hazard.</li> <li>Condemnation.</li> <li>Other compelling reasons devoid of fault on the part of the veteran, e.g., change of employment, health, and so forth.</li> </ol> Original loan must be paid in full to restore guarantee entitlement.
6. Rights of Ownership:	<ol style="list-style-type: none"> <li><i>Legal Owner of Property:</i> Department of Veterans Affairs. Sold to veteran under contract of sale; title passes to veteran when loan and charges paid in full.</li> </ol>	Veteran or veteran and spouse.
b. <i>Sale of Property:</i>	Veteran may sell but new buyer, unless approved by the Department, cannot assume balance of veteran's loan. Loan may be assigned to another qualified California veteran or a non-California veteran.	May sell to anyone without consent of Veterans Administration. Original veteran borrower remains personally liable unless a release or cancellation of liability is obtained from Veterans Administration and the lender or holder.
c. <i>Rental of Property:</i>	Not permitted, except in certain hardship situations. All rentals collected must be applied to veteran's loan balance.	Veteran may rent his property.
d. <i>Encumbrance of Property:</i>	Not permitted by Department of Veterans Affairs.	Veteran may encumber if permitted by lender.

## APPENDIX A (continued)

	State Program	Federal Program
<b>A. General Features—Continued</b>		
<b>6. Rights of Ownership—Continued</b>		
<b>e. <i>Repossession and Foreclosure:</i></b>	Generally, proceedings commence when a veteran is more than three months in arrears on loan payments. If veteran has substantial equity in the property, he may be requested to sell or refinance, thereby cancelling foreclosure proceedings.	<b>Loan Guarantee Program—</b> The VA guaranty takes the first loss. The amount paid under the guaranty claim constitutes a debt of the veteran. The VA may specify an amount which the holder must credit to the indebtedness in accounting to the VA for the liquidation of the property. This amount is based on the debt or the current value of the property, whichever is less. If the holder acquires the property for less than the amount specified by the VA, the holder may elect to convey the property to VA. The VA then attempts through resale of the property to recoup its guaranty payment.
		<b>Direct Loan Program—</b> Veterans Administration sells home.
		In either case, veteran does not receive any residue over and above amount necessary to clear obligation.
<b>7. Financing Provisions:</b>		
<b>a. <i>Method of Financing:</i></b>	Direct to seller from Department of Veterans Affairs.	Through financial intermediaries, except for direct loan program.
<b>b. <i>Junior Financing:</i></b>	Not permitted.	Not expressly prohibited by Veterans Administration—lender may prohibit.
<b>c. <i>Refinancing of Existing Loan from Other Lender:</i></b>	Refinancing of home loans not permitted unless veteran's application to purchase was filed before he acquired an interest or record in the property. Refinancing of farm loans continues.	Prohibited unless an application for a guaranteed loan is made to a lender within 60 days following the closing or the last disbursement from the non-VA loan to be refinanced.
<b>d. <i>Open-End Financing:</i></b>	Financing of repairs, additions, and improvements available under certain conditions. (See Section B for details.)	Permitted subject to arrangement with lender.

# STATE PROGRAM<sup>1</sup>

	Home	Farm	Other <sup>(2)</sup>
<b>B. Loan Features:</b>			
1. <i>Maximum Amount of Loan per Entitlement:</i>	\$15,000. Limited to homes valued by Department at \$25,000 or less.	\$40,000. No maximum appraised value limit.	Home or farm improvement not to exceed difference between existing loan balance and \$15,000 or \$40,000 loanable.
2. <i>Interest Rate:</i>	3½% Rate may be changed each year by action of the California Veterans Board, but not to exceed 5%. Rate changes may apply to all contracts outstanding. If a non-California veteran assumes loan, the interest rate is increased to 5½%.	3½% 3½%	3½%
3. <i>Maximum Maturity of Loan:</i>	40 years though loans generally made for 20 years. Level monthly payment. Number of payments is automatically increased or decreased by change in interest rate and insurance premiums.		Repair loans—repayment at the rate of \$1.50 per month for each \$100 advanced. Permanent improvements — amortized over the remaining life of the loan.
4. <i>Extension of Maturity:</i>	Automatically extended for increased interest cost or insurance premium cost and, in some cases, delinquent payments or closing costs.		Not applicable.
5. <i>Minimum Down Payment:</i>	5% May be waived if veteran has equivalent equity in the property.	10%	None.
6. <i>Closing Costs:</i>	May be paid either by Department or veteran. If paid by Department, the costs are added to veteran's loan balance.		None.
7. <i>Penalty for Prepayment:</i>	Additional payments may be made as desired without penalty, except that if loan is paid off in less than two years a service charge of 2% is required on the original amount of the loan.		No penalty.
8. <i>Real Estate Taxes:</i>	If paid by Department, added to monthly payment to be amortized, with interest, over a period not to exceed 12 months.		_____

<sup>1</sup> Analysis of the Federal program follows the State program.

<sup>(2)</sup> Emergency improvements on property covered by Cal-Vet Loans.

# APPENDIX A (continued)

## STATE PROGRAM—Continued

	Home	Farm	Other
<b>B. Loan Features:—Continued</b>			
<b>9. Fire and Other Hazard Insurance:</b>	<p>Veteran selects insurance company from designated Department list and selects amount of insurance which must at least equal loan balance. Premiums are paid by the Department. The Department bears the cost of the policy for the portion covering the original loan balance; the remaining cost, if any, is added to the veteran's loan balance outstanding.</p> <p>Statewide Current Premium Rate—Five-Year Coverage</p> <p>\$0.48 per \$100 (home)      \$1.20 per \$100 (farm)</p>		
<b>10. Life (Mortgage) Insurance:</b>	<p>Required to extent of unpaid balance of loan if insurance company accepts applicant. Rejection does not affect veteran's entitlement to a loan. Premium (\$3.35 per \$1,000 per month of unpaid balance) paid by department and added to veteran's loan balance. Veteran's monthly payment not affected. In the event of veteran's death, his unpaid loan balance is paid to Department by the two insurance companies.</p>		
<b>11. Disability Insurance:</b>	<p>Required if insurance company accepts applicant. Premium is \$.80 per month regardless of account balance. Paid by Department and charged to veteran's account. Veteran's monthly payment not affected. Insurance companies pay \$80 per month on veteran's account if disabled 90 days or more.</p>		

	Home	Farm	Other (3)	Direct-Loan Program
<b>B. Loan Features:</b>				
1. <i>Maximum Amount of Loan per Entitlement:</i>	No maximum, but cost cannot exceed reasonable value as determined by VA. Guarantee for 60% of loan but in no event more than \$7,000. No limitation on value of home or farm.	No maximum, but cost cannot exceed reasonable value as determined by VA. Guaranteed for 50% of loan but in no event more than \$4,000.	No maximum, but cost cannot exceed reasonable value as determined by VA. Guaranteed for 50% of loan but in no event more than \$2,000.	\$13,500  No limitation on value of home or farm.
2. <i>Interest Rate:</i>	4 $\frac{3}{4}$ % maximum. Rate may be changed only by legislation. A change in the interest rate does not affect outstanding contracts.	4 $\frac{3}{4}$ % maximum.	4 $\frac{3}{4}$ % maximum.	4 $\frac{3}{4}$ %.
3. <i>Maximum Maturity of Loan:</i>	30 years.	40 years.	10 years.	30 years, generally 25 years.
4. <i>Extension of Maturity:</i>	Permitted, if agreeable with lender, but 80% must be repaid within the maximum of 30 years or lesser period, if provided for loans of its class.			Permitted in certain circumstances.
5. <i>Minimum Down Payment:</i>	None.	None.	None.	None.
6. <i>Closing Costs:</i>	Closing and origination costs must be paid by veteran in cash.			Same as Loan Guarantee.
7. <i>Penalty for Pre-payments:</i>	No penalty—additional monthly payments may be made in \$100 increments.			Same as Loan Guarantee.
8. <i>Real Estate Taxes:</i>	Amount is added to monthly loan payment and placed by lender in escrow for payment of taxes.			Same as Loan Guarantee.
9. <i>Fire and Other Hazard Insurance:</i>	Veteran selects insurance company and amount of insurance required by lender will at least equal the loan balance. Policy generally does not exceed three years and is at regular individual insurance rates.			
10. <i>Life (Mortgage) Insurance:</i>	Not required.	Not required.	Not required.	Same as Loan Guarantee.
11. <i>Disability Insurance:</i>	Not required.	Not required.	Not required.	Not required.

(3) Business and non-real estate loans and payments.

## APPENDIX B

### Chronology of Changes in Eligibility Requirements for Cal-Vet Home Buyers<sup>1</sup>

- 1921: State Legislature enacted Farm and Home Purchase Act (Ch. 519) and Land Settlement Act (Ch. 580) which:
- A. Made eligible any veteran who:
    - 1) served in the armed forces during any war in which the U. S. was engaged.
    - 2) was a bona-fide resident of California.
    - 3) was prepared to enter upon the actual land acquired within six months.
    - 4) had not received a bonus or adjusted compensation from the State.
    - 5) was not a recipient of other types of state aid to veterans.
  - B. Gave preference to wounded or disabled veterans.
  - C. Established California Veterans Welfare Board (Ch. 580) to acquire farms and homes for resale to veterans, to approve veterans' applications for property purchases, and to administer the Act.
- 1923: Made ineligible any person who had received aid from another state, the prerequisite of which was military service. (Ch. 404).
- 1931: Permitted widow of veteran dying after making application or loan to succeed to rights, benefits and responsibilities of the veteran. (Ch. 1014).
- 1934: Board adopted conditional commitment method of approving purchase of a home in advance of its construction.
- 1937: Changed requirement of active duty "for not less than 60 days" to "active duty" only. Removed from the law the provision that a veteran could not purchase a farm or home with help of the Veterans Welfare Board if he or his children had received educational assistance. (Chp. 891). Board adopted plan whereby purchaser could assign his contract to himself and his wife in joint tenancy, with the right of survivorship.
- 1939: Changed residence qualification to provide eligibility to a veteran if he was a native of California, although unable to meet the requirements of *bona-fide residence*. (Ch. 396).
- 1943: Extended benefits of eligibility program to WWII veterans in service on December 7, 1941 or after. (Ch. 191).
- 1945: Deemed veteran under 21 to be of age of majority for purpose of entering into purchase contract with Board. (Ch. 86).

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<sup>1</sup> Unless otherwise noted, the changes shown herein were made by the State Legislature.

- 1946: Abolished California Veterans Welfare Board. Coordinated its program with other veterans' benefit programs in a Department of Veterans Affairs with a Director as administrative head. Created a California Veterans Board to determine policies for the Department. Repealed home-buying restrictions placed on veterans taking advantage of Land Settlement Act. (Ch. 114, 1st Ex. Sess.).
- 1947: Included service in Coast Guard in definition of veteran. Made ineligible WWII veterans entering service after Jan. 1, 1947. (Ch. 1454).
- 1953: Excluded temporary active duty; 90 day active duty minimum unless discharged for service-connected disability. (Ch. 1334).
- 1955: Extended benefits of program to Korean veterans in service June 27, 1950 to January 31, 1955. Made eligible WWII or Korean veterans with any part of 90-day service in periods of eligibility. (Ch. 404). Board granted separate eligibilities for separate war periods; abolished requirement stating veteran must have been under contract for two years before requesting advance loan; and made second loan possible, if first Cal-Vet contract no longer outstanding.
- 1956: A. Prescribed that the California Veterans Board was to establish a priority system in considering applications for home and farm loans that would give prior consideration to applications for lesser amounts. (Ch. 51, Ex. Sess. became Section 987.13 of the California Military and Veterans Code).
- B. *Priority for Purchase*. (Management Memo 56-16, dated April 26, 1956). Board, in compliance with Section 987.13, provided that purchase applications be given priorities in the order of receipt according to the following schedule:

<i>Priority Order</i>	<i>Homes</i>	<i>Farms</i>
	<i>Loans not to exceed:</i>	
First .....	\$10,000	\$20,000
Second .....	11,000	25,000
Third .....	12,000	30,000
Fourth .....	13,000	35,000
Fifth .....	14,000	40,000
Sixth .....	15,000	

Further, only applications in the first priority were to be processed until the Director determined that funds and processing facilities were available to permit consideration of the second and succeeding priority groups.

- C. Priority revision (Memo to all district offices, Sept. 14, 1956). Board established new priority preference categories as follows:
- 1) wounded or disabled veterans requesting a loan in any amount to purchase a property in which they did not have a previously acquired interest.

- 2) wounded or disabled veterans requesting a loan in any amount to refinance a property.
- 3) other veterans requesting a loan in the first priority—\$10,000 and under for homes, and \$20,000 and under for farms—to purchase a property in which they did not have a previously acquired interest.
- 4) other veterans requesting a loan in the first priority (\$10,000 and under for a home) to refinance a property.

D. Priority revision (Management Memo 56-29, dated Nov. 30, 1956).

- 1) board ruled that priority applications were to be processed in the order in which received; wounded and disabled veterans were to retain preference over able-bodied, but applications for new purchases were to be given preference over applications for refinancing.

1957: A. Priority revision (Management Memo No. 57-2, dated Jan. 24, 1957). Board revised priority system so that:

- 1) applications from wounded or disabled veterans were to be processed first, regardless of the amount of loan requested;
- 2) applications from all other veterans were to be processed in chronological order according to the date the priority applications were received.
  - a. within each day's applications the order of processing was to be determined on the basis of the amount of loan requested, with preference being given to those requests for lesser amounts.
  - b. all of the applications received on a particular day were to be processed before moving to the next day's applications.

B. Quotas for district offices were instituted in May 1957 and were terminated in July 1958. Quotas were related mainly to each district's past volume. The number of contracts allowed to be transmitted to the central office from all districts increased from 1,020 in June 1957 to 2,025 per month in June 1958.

C. Priority revision (Ch. 1148, effective July 2, 1957, became Section 987.15). Prior consideration was to be given to applicant to purchase property in which he had not acquired an interest of record. Those with an interest of record at the time of filing were not to be considered or approved prior to September 15, 1959, except in hardship cases approved by the California Veterans Board.

D. Repealed Land Settlement Act (Ch. 88).

- E. Priority revision (Management Memo 57-15, dated July 11, 1957).  
Board established the following order for processing applications:

<i>Order</i>	<i>Veteran</i>	<i>Purchase</i>	<i>Application Received In District Office</i>
First	Wounded & Disab.	New Purch.	Before or after 7/2/57
Second	Wounded & Disab.	Refinance	Before 7/3/57
Third	Other	New Purch.	Before 7/3/57
Fourth	Other	Refinance	Before 7/3/57
Fifth	Other	New Purch.	After 7/2/57

Applications for refinancing received from wounded and disabled veterans after July 2, 1957 were to be deferred for the duration of the moratorium.

- 1958: A. Amended priority section 987.15 (Ch. 95, 1958, 1st Ext. Sess.).  
Refinancing of homes was discontinued, except (a) where veteran had acquired an interest in the property after filing a purchase application with the Department, (b) where application was for financing to construct a home upon unimproved property, and (c) when Department had excess funds not needed to finance original purchases. Repealed priority (Section 987.13) for loans of lesser amounts.

- B. Priority revision (Management Memo 58-2, dated April 30, 1958).  
Board determined that:

- 1) first consideration was to be given to application from "new purchase" wounded and disabled veterans.
- 2) second consideration was to be given to applications from "new purchase" other veterans.
- 3) processing of "refinance" applications received prior to 7/3/57 was to begin when facilities and funds permitted.

- C. Department authorized a second loan in lieu of an improvement loan under certain conditions.

- 1959: Board restored entitlement to veteran who sold his home that was no longer suitable for his family's needs. Restored entitlement restricted to the amount owed at the time the first Cal-Vet loan was paid in full. If the sale was because the family size increased, an added \$3,500 maximum could be borrowed. Board permitted encumbrances on farm property for the purchase of additional land, equipment, and so forth.
- 1960: Board provided for advance loan commitments to eliminate long delays for veteran with definite home or farm purchase in prospect.

## APPENDIX C

**Chronology of Changes in Costs, Charges,  
Property and Loan Values Applicable to Cal-Vet Home Buyers<sup>1</sup>**

- 1921: State Legislature enacted Farm and Home Purchase Act (Ch. 519) which contained the following terms:  
*Value limitations*—Maximum costs of home to Veterans  
     Welfare Board—\$5,000  
     Maximum appraised value of home—\$5,000  
     Maximum value of veteran's real estate holdings—\$5,000  
*Initial payment*—At least 5% of Department's appraised value.  
*Interest rate*—Not to exceed 5% per annum.  
*Amortization*—40-year maximum.  
*Administrative charges*—Required Board to add administrative and appraisal costs to selling price to veteran.  
*Insurance*—Board may require purchaser to give some form of personal, accident or health insurance and to bear fire insurance for all buildings on property.
- 1923: *Property maintenance; taxes*—Gave Board increased powers to keep contract properties in good order, and to provide for payment of taxes in case purchaser did not, and to add such costs to the selling price of the property. Amount payable on demand, but Board, at its discretion, could amortize the repayment at the rate of 7% compounded semi-annually.  
*Insurance*—Deleted section of 1921 Act requiring purchaser to take out health or accident insurance (Ch. 405).
- 1927: *Value limitations*—Maximum appraised value of home—\$7,500 (Ch. 822).  
     Maximum value of veteran's real estate holdings—\$7,500 (Ch. 822).
- 1928: *Insurance*—Board obtained fire insurance at a 40 to 50 per cent saving to purchasers at a rate of \$.75 per \$100 of insurance for five-year period.
- 1932: *Property taxation*—Board adopted assessment method worked out by the Assessors' Association of California, representatives of veterans' organizations in California, and the State Board of Equalization. Only the veteran's possessory interest was to be taxed. Possessory interest was to be determined as follows:  
     1st 5-year period—30% of original price;  
     2nd 5-year period—45% of original price;  
     3rd 5-year period—65% of original price;  
     4th 5-year period—85% of original price.

<sup>1</sup> Unless otherwise noted, the changes shown herein were made by the State Legislature.

- 1934: *Delinquent accounts*—Board revised policy on delinquent accounts. Delinquent contracts rewritten if the purchaser could resume current installments. Arrearages were amortized with the deferred balances over the remaining period of the original agreement, in order to maintain the Board's bond-redemption schedules. Those unable to assume these terms were permitted to retain physical possession of their properties under a rental agreement until they were financially able to undertake a new purchase contract. Board adopted conditional commitment plan by which Cal-Vet would agree, prior to construction, to purchase the home on completion of construction.
- 1937: *Value limitations*—Maximum value of home—\$10,000. Maximum appraised value of veteran's real estate holdings—\$10,000 (Ch. 891).
- Loans*—Authorized Board to advance funds to a purchaser for accounts actually expended for repairing, painting, redecorating, remodeling or adding to all permanent improvements, and for the insurance of crops or permanent improvements against fire or other hazards. Amount loaned was to be added to the deferred principal of the purchaser's account and to bear the same interest rate. Repayment was to be at the rate of \$1.50 per month per \$100 advanced except advances for permanent improvements could be amortized over the remaining term of the contract.
- 1938: *Insurance*—Board effected Home Protection Plan of life insurance. Board able to insure lives of purchasers for exact amount of balance due on contracts at a cost of \$1 per \$1,000 of insurance per month. For first 60 days, contract holders were made eligible without evidence of insurability.
- 1941: *Insurance*—Life insurance rate increased to \$1.17 per \$1,000 of insurance per month.
- 1944: *Insurance*—Life insurance plan extended to WWII veterans. Rate of \$.70 per \$1,000 or insurance per month for veterans under 40. The premium rate for veterans over 40 was \$1 per \$1,000. Board required all new contract holders to apply for the Home Protection Plan of life insurance.
- 1945: *Value limitations*—Maximum cost to Board—WWII vets, \$6,500 (Ch. 1362); (remained at \$5,000 for WWI vets).
- Interest rate*—Fixed at 4%.
- Property maintenance; taxes*—Stipulated that monies expended by Board to keep properties sold in good order and for taxes to bear regular rate of interest to purchaser instead of 7% (Ch. 104).
- Initial payment*—Waived in case of refinancing should veteran own equity of at least 10% of the purchase price to Board (Ch. 1233).
- Administrative charge*—Dropped administrative charge of 5%. Pre-

- vious charges collected returned to former contract holders or their heirs, and credit made to existing contract accounts (Ch. 1502).
- 1946: *Value limitation*—Maximum cost to Department—\$7,500 (Ch. 12).  
*Interest rate*—Range fixed at 2½% to 4%; Board fixed rate at 3%.  
 Stated that contract holders subject to changes in rate made by Department were to be given 90 days notice. Added stipulation that changes in interest rate should not affect the total amount of any installment payment (Ch. 47).  
*Initial payment*—Changed 1945 legislation waiving initial payment in cases of refinancing as follows: the appraised value of property should equal amount to be paid by the Department plus at least 10% (Ch. 47).
- 1947: *Interest rate*—Declared that provisions relative to rate of interest not applicable to non-California assignees; such rate to be fixed by Department (Ch. 336).
- 1948: *Property tax*—State Supreme Court declared unconstitutional agreement for taxing veterans' possessory interests (Charles Easley vs. Lou P. Mohan, County Assessor, County of Placer, April 3, 1948). Cal-Vet financed properties became subject to full property tax.
- 1949: *Initial payment*—May be waived in any case in which the value of the property as determined by appraisal equals the amount to be paid by the Department plus at least 10 percent (Ch. 593).  
*Construction-home purchase*—Department may arrange contracts for construction of dwelling house and other buildings under a progress payment plan.
- 1950: Board set rate for life insurance at \$.35 per \$1,000 per month for all eligible contract holders. Board agreed to pay veteran's property taxes and veteran was to repay on a monthly basis within 12 months.
- 1951: *Value limitation*—Maximum purchase price of home to Department—\$8,500. ("Cost" changed to "Price." Cost is the amount veteran has to pay the Department.) Maximum appraised value of home—\$11,500 (Ch. 1154). Special value provision—Veteran purchaser having suffered loss of both legs may purchase property and improvements up to \$15,000 in value (enabled such veterans to obtain maximum benefit from Federal Government). (Ch. 170.)
- 1953: *Value limitation*—Maximum appraised value of home—\$12,500. Maximum value of veteran's real estate holdings—\$12,500 (Ch. 355).
- 1955: *Value limitation*—Maximum appraised value of home—\$17,000. Repealed limitation on maximum value of veteran's real estate holdings (Ch. 1082).  
 Repealed special value limitation of 1951 for paraplegic veterans.

*Insurance*—Board added total disability coverage to Home Protection Plan of life insurance policies for veteran contract holders under 65, gainfully employed on full-time basis in business or as housekeepers, at a premium rate \$.80 per month per contract. Credited \$50 monthly to accounts of veterans totally disabled for more than three months.

*Appraisal and inspection fees*—Board dropped a total of \$142.50 in appraisal and inspection fees. Preliminary charge of \$50 for processing construction contracts continued.

*Improvement loans*—Stipulated that appraised value after advance for improvements was allowed to exceed current legal maximum value limitation.

1956: *Value limitations*—Maximum loan by Department: existing homes, \$15,000; construction homes, \$13,500. Repealed limitation on maximum appraised value of home (Ch. 51).

1957: *Value limitation*—Maximum loan by Department for construction homes, \$15,000.

Interest rate not to exceed 5% (Ch. 68). Board fixed rate at 3½% for veterans and 5½% on contracts with non-veterans.

*Initial payment*—Waived the 5 percent initial payment if the Department appraisal equalled the amount to be paid by the Department plus at least 5 percent (Ch. 95).

1958: *Value limitation*

Reinstated limitation on maximum appraised value of home; set at \$25,000. (Ch. 95, 1'st Ex. Sess.)

Board credited \$80 monthly to accounts of insured totally disabled veterans.

*Inspection fee*—Board approved discontinuance of \$30 compliance inspection fee.

*Insurance*—Board amended Home Protection Plan to provide for life insurance coverage, for those qualified, if could not qualify for disability insurance.

1960: *Interest rate*—Board approved interest rate increase for veterans from 3½% to 4%; for non-veterans from 5½% to 6%.

*Insurance*—Board amended Home Protection Plan to provide for cash payments to a veteran's beneficiaries of 20% of contract balance and double this amount if death is accidental before age 70.

1961: Board changed amortization method from a 3% interest rate and a 20-year term to a 4% interest rate and a 23-year term on all new contracts. Charges for life, disability, and fire insurance premiums included in the monthly installment payment. Contracted with one company to provide all property hazard insurance; discontinued master agreement with a number of insurance companies.

# APPENDIX D

## Tables on Cal-Vet Contracts and Loan Balances

TABLE D-1

NUMBER OF FARM AND HOME CONTRACTS WRITTEN AND TERMINATED, 1922-1960\*

	Fiscal Years <sup>1</sup>										
	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33
<i>Contracts in force</i> .....		198	594	1,459	2,225	2,923	5,131	6,842	7,450	8,518	11,364
<i>Contracts written</i>											
Regular											
Year.....	198	398	870	771	703	2,213	1,716	618	1,088	3,092	188
To date.....	198	596	1,466	2,237	2,940	5,153	6,869	7,487	8,575	11,667	11,855
Construction											
Year.....											
To date.....											
<i>Contracts terminated</i>											
By regular payments, pre-											
payments, and repos-											
sitions resold											
Year.....		2	5	5	5	5	5	10	10	20	20
To date.....		2	7	12	17	22	27	37	47	67	87
By life insurance											
Year.....											
To date.....											
Repossession.....											
To date.....				15	9	15	95	93	117	331	854
Resales.....				15	9	15	95	93	107	105	202
Rewrites <sup>2</sup>							5	16	11	16	195
Rewrites.....									10	236	888
<i>Repossession on hand</i> .....											

\* See footnotes at end of table.

TABLE D-1 (continued)

	Fiscal Years <sup>1</sup>										
	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44
<i>Contracts in force</i> .....	10,880	9,504	9,069	11,214	15,131	16,695	16,734	16,864	16,495	15,781	14,568
<i>Contracts written</i>											
Regular											
Year.....	10	None	2,049	2,892	1,453	222	424	149	18	24	75
To date.....	11,865	11,865	13,914	16,806	18,259	18,481	18,905	19,054	19,017	19,096	19,171
Construction											
Year.....											
To date.....											
<i>Contracts terminated</i>											
By regular payments, prepayments, and repossessions resold											
Year.....	59	80	78	245	320	452	359	451	676	1,124	1,536
To date.....	146	226	304	549	869	1,321	1,680	2,131	2,807	3,931	5,467
By life insurance											
Year.....						63	126	131	131	137	115
To date.....						63	189	320	451	588	703
Repossessions.....	1,544	681	257	39	21						
Resales.....	217	326	431	1,309	452	332	191	64	75	24	8
Rewrites <sup>2</sup> .....	1,062	367	213	245	79	131	120	48			
<i>Repossessions on hand</i> .....	2,215	2,570	2,396	1,126	695	363	172	108	33	9	1

**APPENDIX D (continued)**  
**TABLE D-1 (continued)**

	Fiscal Years <sup>1</sup>										
	1944-45	1945-46	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55
<i>Contracts in force</i> .....	13,000	11,487	11,654	14,408	14,830	17,595	23,300	29,525	35,118	41,426	48,360
<i>Contracts written</i>											
Regular	147	1,729	4,827	2,237	4,519	6,527	7,765	7,276	8,494	9,179	8,925
To date.....	19,318	21,047	25,874	28,111	32,630	39,763	48,280	56,173	65,229	74,939	84,342
<i>Construction</i>											
Year.....						606	752	617	562	531	478
To date.....						606	1,358	1,975	2,537	3,068	3,546
<i>Contracts terminated</i>											
By regular payments, prepayments, and re- possessions resold											
Year.....	1,575	1,464	1,981	1,723	1,290	1,678	2,193	2,193	2,659	2,650	3,389
To date.....	7,042	8,506	10,487	12,210	13,500	15,178	17,371	19,564	22,223	24,873	28,262
By life insurance											
Year.....	86	98	92	92	100	98	105	112	93	124	110
To date.....	789	887	979	1,071	1,171	1,269	1,374	1,486	1,579	1,703	1,813
Repossessions.....				2	2	22	10	12	4	12	13
Resales.....	1			2	2	6	16	17	8	10	8
Rewrites <sup>2</sup> .....											
<i>Repossessions on hand</i> .....						16	10	5	1	3	8

TABLE D-1 (continued)

	Fiscal Years <sup>1</sup>						
	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	
<i>Contracts in force</i> .....	54,259	59,071	68,993	83,369	96,667	109,341	
<i>Contracts written</i>							
Regular							
Year.....	8,516	13,671	17,177	17,222	16,957		
To date.....	98,228	107,202	124,379	141,601	158,558		
Construction							
Year.....	370	303	763	1,123	1,246		
To date.....	3,916	4,219	4,982	6,105	7,351		
<i>Contracts terminated</i>							
By regular payments, prepayments, and repossessions resold							
Year.....	3,950	3,890	3,395	4,835	5,275		
To date.....	32,212	36,102	39,497	44,332	49,607		
By life insurance							
Year.....	123	157	168	214	236		
To date.....	1,936	2,093	2,261	2,475	2,711		
Repossessions.....	12	21	27	26	45		
Resales.....	11	16	26	28	27		
Rewrites <sup>2</sup> .....							
<i>Repossessions on hand</i> .....	9	14	15	13	31		

<sup>1</sup> Fiscal year ending June 30.<sup>2</sup> Installment payments reduced to forestall repossessions.

SOURCE: Division of Farm and Home Purchases, Department of Veterans Affairs, State of California, Sacramento, California.

# APPENDIX D (continued)

TABLE D-2

STATEMENT OF FARM AND HOME LOAN DOLLAR BALANCES, 1922-1960\*

	Fiscal Years						
	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29
<i>Loan Balances</i> <sup>1</sup> .....		\$ 850, 108	\$2, 639, 518	\$6, 417, 469	\$9, 695, 508	\$12, 442, 605	\$22, 255, 827
<i>Additions to Loan Balances</i>							
New farm and home loans.....	\$875, 992	1, 893, 606	4, 033, 332	3, 680, 029	3, 260, 187	10, 515, 153	8, 412, 132
Home construction.....	17, 773	83, 818	222, 099	424, 069	520, 819	909, 652	1, 309, 754
Interest on contracts.....							
Life insurance premiums.....							
Disability insurance premiums.....	744	3, 265	4, 418	4, 570	9, 500	9, 594	36, 587
Repair and improvement advances...							
Tax and assessment advances.....		87, 631	214, 479	196, 172	174, 932	571, 475	470, 734
Closing costs <sup>2</sup> .....	28, 930						
<i>Subtractions from Loan Balances</i>							
Installment payments.....	73, 331	278, 911	696, 378	1, 026, 801	1, 218, 341	2, 192, 653	3, 139, 061
Refund of initial payment.....							
Refund of loading charge.....							
Flood damage.....							
Regular payments, prepayments, and cash resales.....							
Life insurance payments.....							
<i>Repossession-Resales</i> <sup>3</sup> .....							
Profit or loss on resales.....							
Repossessions (-).....							
Contract resales (+).....							
<i>Repossessioned Real Estate on Hand</i> <sup>4</sup> .....							

\* See footnotes at end of table.

TABLE D-2 (continued)

	Fiscal Years						
	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
<i>Loan Balances</i> <sup>1</sup> .....	29,345,972	31,008,292	34,649,483	47,799,239	47,398,929	45,929,592	44,154,964
<i>Additions to Loan Balances</i>							
New farm and home loans.....	2,973,659	5,079,918	14,683,765	893,742	48,218	2,400	8,845,210
Home construction.....	1,519,544	1,579,097	2,130,111	2,387,789	2,343,134	2,298,115	2,321,846
Interest on contracts.....							
Life insurance premiums.....							
Disability insurance premiums.....							
Repair and improvement advances.....	49,591	77,857	194,995	52,943	274,026	232,550	204,993
Tax and assessment advances.....	159,470	239,668	668,378	146,485	2,383	None	435,781
Closing costs <sup>2</sup> .....							
<i>Subtractions from Loan Balances</i>							
Installment payments.....	3,039,943	3,340,360	4,503,718	3,889,666	4,131,226	4,311,153	4,418,379
Refund of initial payment.....							702,388
Refund of loading charge.....							
Flood damage.....							
Regular payments, prepayments, and cash resales.....							156,000
Life insurance payments.....							
<i>Repossession-Resales</i> <sup>3</sup>							
Profit or loss on resales.....		+5,011	-24,773	+8,396	+5,874	+3,461	-4,197
Repossession (-).....							
Contract resales (+).....							
<i>Repossession Real Estate on Hand</i> <sup>4</sup> .....		34,510	814,436	3,064,488	7,643,965	8,874,039	8,036,901

# APPENDIX D (continued)

TABLE D-2 (continued)

	Fiscal Years						
	1936-37	1937-38	1938-39	1939-40	1940-41	1941-42	1942-43
<i>Loan Balances</i> <sup>1</sup> .....	50,681,829	60,199,993	62,825,894	59,958,345	58,170,949	54,386,504	49,214,150
<i>Additions to Loan Balances</i>							
New farm and home loans .....	13,426,610	6,924,660	1,071,432	1,983,724	722,978	78,888	78,453
Home construction .....							
Interest on contracts .....	2,815,048	3,085,753	3,057,997	2,934,455	2,788,227	2,595,856	2,292,126
Life insurance premiums .....			354,073	595,941	565,564	556,414	543,404
Disability insurance premiums .....							
Repair and improvement advances .....	479,380	459,449	699,314	634,713	379,916	179,263	87,421
Tax and assessment advances .....							
Closing costs <sup>2</sup> .....	673,771	349,386	54,237	88,966	32,679	490	None
<i>Subtractions from Loan Balances</i>							
Installment payments .....	5,812,678	6,571,509	6,606,907	6,642,345	6,704,727	6,583,945	6,611,158
Refund of initial payment .....	1,176,004	561,590	110,730	150,300	71,370	26,287	11,941
Refund of loading charge .....							
Flood damage .....							
Regular payments, prepayments, and cash resales .....	490,000	640,000	904,000	727,449	865,405	1,387,568	2,243,006
Life insurance payments .....			238,142	388,611	439,476	406,195	391,065
<i>Repossession-Resales</i> <sup>3</sup>							
Profit or loss on resales .....	-397,964	-420,248	-244,822	-116,492	-192,832	-179,270	-69,692
Repossession (-) .....							
Contract resales (+) .....							
<i>Repossession Real Estate on Hand</i> <sup>4</sup> .....	3,650,508	1,520,173	1,071,311	1,060,373	616,188	243,808	74,778

TABLE D-2 (continued)

	Fiscal Years						
	1943-44	1944-45	1945-46	1946-47	1947-48	1948-49	1949-50
<i>Loan Balances</i> <sup>1</sup> .....	42,888,692	35,959,360	30,112,091	32,466,327	49,870,498	55,696,429	79,130,530
<i>Additions to Loan Balances</i>							
New farm and home loans.....	289,072	673,529	9,339,524	26,675,216	14,053,611	30,798,616	49,429,154
Home construction.....							2,767,190
Interest on contracts.....	1,956,848	1,636,662	1,307,276	1,492,435	1,658,468	2,123,102	3,135,388
Life insurance premiums.....	471,296	371,823	306,465	309,751	404,020	407,186	467,967
Disability insurance premiums.....							
Repair and improvement advances.....	60,223	100,771	176,263	87,044	243,554	654,668	722,002
Tax and assessment advances.....							
Closing costs <sup>2</sup> .....	7,222	1,192	131,419	446,246	183,813	383,052	1,001,986
<i>Subtractions from Loan Balances</i>							
Installment payments.....	6,254,744	5,549,158	5,036,964	5,322,584	6,232,006	6,791,974	9,395,057
Refund of initial payment.....	19,644	39,826	327,552	694,181	300,195	732,124	1,120,612
Refund of loading charge.....			995,958	1,651,598	38,970	6,000	5,006
Flood damage.....							
Regular payments, prepayments, and cash resales.....	3,123,054	2,831,317	2,252,684	3,759,285	3,954,512	3,141,045	4,512,201
Life insurance payments.....	294,052	211,121	293,552	178,797	190,379	266,171	274,313
<i>Repossession-Resales</i> <sup>3</sup>							
Profit or loss on resales.....	-22,499	+177		+76	-1,472	+4,791	119,785
Repossession (-).....							35,202
Contract resales (+).....							
<i>Repossession Real Estate on Hand</i> <sup>4</sup> .....	3,700						84,583

# APPENDIX D (continued)

TABLE D-2 (continued)

	Fiscal Years						
	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57
<i>Loan Balances</i> <sup>1</sup> .....	121,262,446	167,322,902	211,078,836	280,454,312	313,668,291	357,410,129	393,396,445
<i>Additions to Loan Balances</i>							
New farm and home loans.....	52,489,352	55,801,060	67,365,818	73,251,016	70,960,970	71,269,568	134,772,053
Home construction.....	7,638,431	4,527,058	4,422,407	4,353,814	3,924,863	2,730,592	4,068,864
Interest on contracts.....	4,612,562	5,833,657	7,311,460	8,896,187	10,408,006	11,512,610	13,630,235
Life insurance premiums.....	627,887	807,554	1,010,581	1,222,964	1,429,716	1,578,474	1,852,081
Disability insurance premiums.....						537,651	606,686
Repair and improvement advances.....	308,989	396,555	574,312	777,355	1,134,575	1,812,079	2,195,564
Tax and assessment advances.....	631,244	887,960	1,103,437	1,553,975	1,982,640	2,721,609	4,044,466
Closing costs <sup>2</sup> .....	1,061,120	1,194,842	1,161,567	767,059	739,175	630,721	1,589,325
<i>Subtractions from Loan Balances</i>							
Installment payments.....	12,861,072	16,532,775	19,994,349	23,961,241	28,350,801	32,784,189	39,130,900
Refund of initial payment.....	940,632	992,637	1,062,212	973,667	584,315		
Refund of loading charge.....							362,963
Flood damage.....							
Regular payments, prepayments, and cash resales.....	7,226,105	7,766,007	12,204,040	12,192,606	17,372,463	23,362,411	21,736,450
Life insurance payments.....	322,063	415,966	335,442	471,995	502,739	643,178	776,771
<i>Repossession-Resales</i> <sup>3</sup>							
Profit or loss on resales.....							
Repossession (-).....	55,979	64,517	26,471	72,260	84,679	92,608	153,276
Contract resales (+).....	96,722	79,149	48,407	63,377	56,891	74,399	154,601
<i>Repossession Real Estate on Hand</i> <sup>4</sup> .....	43,840	29,207	7,271	16,154	43,942	62,153	60,827

TABLE D-2 (continued)

	Fiscal Years				
	1957-58	1958-59	1959-60	1960-61	
<i>Loan Balances</i> <sup>1</sup> .....	494,149,680	676,277,148	861,472,300	1,061,056,778	
<i>Additions to Loan Balances</i>					
New farm and home loans.....	208,233,744	220,250,484	241,075,732		
Home construction.....	10,877,600	17,041,182	16,034,557		
Interest on contracts.....	20,298,842	27,529,022	36,433,780		
Life insurance premiums.....	2,593,919	3,284,685	4,606,974		
Disability insurance premiums.....	747,610	861,960	991,522		
Repair and improvement advances.....	3,209,507	3,941,387	5,879,977		
Tax and assessment advances.....	6,749,903	9,062,657	11,976,787		
Closing costs <sup>2</sup> .....	2,426,513	2,954,389	1,383,887		
<i>Subtractions from Loan Balances</i>					
Installment payments.....	52,547,163	67,069,472	79,689,456		
Refund of initial payment.....					
Refund of loading charge.....					
Flood damage.....	21,754	17			
Regular payments, prepayments, and cash resales.....	19,342,932	31,175,147	36,932,886		
Life insurance payments.....	1,086,271	1,413,620	1,957,040		
<i>Repossession-Resales</i> <sup>3</sup>					
Profit or loss on resales.....					
Repossession (-).....	212,912	218,061	521,274		
Contract resales (+).....	200,863	145,703	301,918		
<i>Repossessioned Real Estate on Hand</i> <sup>4</sup> .....	72,875	145,233	364,589		

<sup>1</sup> Loan balance as of July 1 of first year shown.<sup>2</sup> Includes appraisal, title insurance, escrow and Cal-Yet's administrative (loading) fees.<sup>3</sup> Symbols (+ or -) indicate additions or subtractions to the loan balance.<sup>4</sup> Value of inventory as of June 30 at end of period.

Source: Division of Farm and Home Purchases, Department of Veteran Affairs, State of California, Sacramento, California.

# APPENDIX D (continued)

TABLE D-3

STATEMENT OF HOME LOANS AND LOAN BALANCES OUTSTANDING, BY YEAR OF CONTRACT<sup>1</sup>

Contract Date	Loan Amount	Loan Balance	Loan Balance (percent)	Loan Paid (percent)	Contracts Outstanding	
					(number)	(percent)
1944 and prior.....	\$ 214,000	\$ 30,851	.....	85.58	43	.04
1945.....	208,500	57,778	.01	72.29	38	.04
1946.....	5,245,800	2,280,932	.22	56.51	914	.85
1947.....	4,196,100	2,203,517	.22	47.48	662	.62
1948.....	8,706,700	5,073,370	.50	41.80	1,276	1.19
1949.....	18,452,000	11,868,496	1.17	35.68	2,627	2.44
1950.....	34,176,600	23,404,733	2.30	31.52	4,750	4.42
1951.....	30,160,000	21,631,280	2.13	28.28	4,031	3.75
1952.....	43,644,200	32,909,258	3.24	24.60	5,457	5.07
1953.....	50,125,800	39,717,498	3.91	20.77	6,235	5.80
1954.....	57,659,700	47,941,984	4.72	16.86	7,173	6.67
1955.....	55,463,300	48,355,371	4.76	12.82	6,910	6.42
1956.....	84,027,300	76,505,911	7.53	8.96	9,360	8.70
1957.....	188,360,300	177,244,768	17.44	5.91	16,731	15.55
1958.....	208,656,900	204,046,108	20.08	2.21	16,586	15.42
1959.....	249,272,000	249,961,732	24.59	— .27	19,287	17.92
1960.....	71,979,200	72,897,776	7.18	-1.27	5,500	5.20
Totals.....	\$1,110,548,400	\$1,016,131,363	100.00	8.09	107,580	100.00

<sup>1</sup> As of June 20, 1960.

SOURCE: Division of Farm and Home Purchases, Department of Veterans Affairs, Sacramento, California.

## APPENDIX D (Continued)

TABLE D-4

CAL-VET FARM LOANS, 1922-1959

Year <sup>1</sup>	Number	Value
1922.....	.....	.....
1923.....	17	\$ 105,725
1924.....	58	310,825
1925.....	79	427,959
1926.....	32	182,674
1927.....	33	208,069
1928.....	42	254,350
1929.....	18	94,800
1930.....	1	7,500
1931.....	104	554,005
1932.....	45	242,227
1933.....	1	5,000
1934.....	.....	.....
1935.....	2	8,500
1936.....	97	513,115
1937.....	40	238,590
1938.....	21	126,130
1939.....	4	21,900
1940.....	3	12,700
1941.....	.....	.....
1942.....	1	3,460
1943.....	.....	.....
1944.....	2	10,150
1945.....	3	19,800
1946.....	44	409,478
1947.....	33	272,760
1948.....	39	360,950
1949.....	42	389,806
1950.....	77	685,550
1951.....	77	734,375
1952.....	86	887,793
1953.....	87	891,414
1954.....	78	768,049
1955.....	121	1,345,760
1956.....	159	2,115,785
1957.....	271	5,702,058
1958.....	178	3,662,380
1959.....	191	4,563,590
	2086	\$26,137,227

<sup>1</sup> Calendar year.

Source: Division of Farm and Home Purchases, Department of Veterans Affairs; Sacramento, California.

## APPENDIX E

## Tables on Estimated Veteran Population

TABLE E-1

ESTIMATED VETERAN POPULATION RESIDING IN CALIFORNIA, JULY 15, 1958

Military Service	Entered Service from California	Entered Service from Other States	Total
Korean . . . . .	250,000	100,000	350,000
World War II . . . . .	1,035,000	565,000	1,600,000
Other Wars . . . . .	115,000	235,000	350,000
Totals . . . . .	1,400,000	900,000	2,300,000

SOURCE: Memorandum from James W. Cowan, Manager, Service and Coordination, Department of Veterans Affairs, State of California, to John L. Vickerman, Assistant Administrative Analyst, Legislative Budget Committee, State of California, dated July 15, 1958.

TABLE E-2

ESTIMATED VETERAN POPULATION RESIDING IN CALIFORNIA, 1947 TO 1953

Date	Korean	World War II	Other Wars <sup>1</sup>	Total
6/ 1/47 . . . . .	.....	1,170,000	400,000	1,570,000
10/ 1/47 . . . . .	.....	1,200,000	400,000	1,600,000
10/ 1/48 . . . . .	.....	1,275,000	400,000	1,675,000
8/ 1/49 . . . . .	.....	1,350,000	400,000	1,750,000
7/ 1/53 . . . . .	115,000	1,500,000	400,000	2,015,000
12/31/53 . . . . .	155,000	1,520,000	400,000	2,075,000
7/15/58 . . . . .	350,000	1,600,000	350,000	2,300,000

<sup>1</sup> Figure was estimated as constant between 1947 and 1954 on the basis that immigration offset mortality.

SOURCE: "California's Growing Veteran Population," Department of Veterans Affairs, State of California, December 31, 1953, pp. 1 and 4.

# APPENDIX F

## TABLE F-1

CAL-VET BOND DATA, 1924-1960

Date of Issue	Bond Act Series	Bonds Issued		Bonds Outstanding	Bond Interest Rates	
		New Issues	Cumulative		On New Issues (percent)	Average of Unredeemed Bonds (percent)
		(millions of dollars)				
2/24.....	1st - 1921	4	4	4.0	4.4995	4.49
10/24.....	2nd - 1921	2	6	6.0	4.2399	4.41
5/25.....	3rd - 1921	2	8	7.8	4.2341	4.36
10/25.....	4th - 1921	2	10	9.8	4.4318	4.38
2/27.....	1st - 1925	2½	12½	11.6	4.1839	4.42
6/27.....	2nd - 1925	3	15½	14.6	4.1099	4.35
11/27.....	3rd - 1925	2½	18	17.1	3.9670	4.30
2/28.....	4th - 1925	4	22	20.8	3.9253	4.22
5/28.....	5th - 1925	4	26	24.8	4.000	4.19
10/28.....	6th - 1925	4	30	28.8	4.2252	4.19
2/31.....	1st - 1929	4	34	31.5	3.9422	4.15
6/31.....	2nd - 1929	4	38	35.5	3.6766	4.10
10/31.....	3rd - 1929	3	41	38.5	4.000	4.09
12/31.....	4th - 1929	6	47	44.5	4.4904	3.72
4/32.....	5th - 1929	3	50	46.4	4.3553	4.15
6/35.....	1st - 1933	5	55	47.1	2.8706	4.01
2/36.....	2nd - 1933	5	60	50.4	2.6098	3.86
6/36.....	3rd - 1933	5	65	55.4	2.5462	3.69
1/37.....	4th - 1933	3	68	58.4	2.0170	3.65
4/37.....	5th - 1933	3	71	58.8	2.75	3.59
6/37.....	6th - 1933	3	74	61.8	2.5813	3.54
1/38.....	7th - 1933	3	77	64.8	2.2891	3.48
1/39.....	8th - 1933	3	80	64.3	2.1638	3.41
8/45.....	1st - 1943	15	95	46.9	.9810	2.49
4/46.....	2nd - 1943	15	110	57.0	1.2324	2.07
4/47.....	1st - 1946	10	120	61.7	1.5346	1.86
5/48.....	2nd - 1946	10	130	66.3	1.8183	1.75
9/48.....	3rd - 1946	25	155	91.3	1.9272	1.80
6/49.....	4th - 1946	30	185	115.0	1.9237	1.7394
2/50.....	5th - 1946	25	210	132.9	1.6991	1.7253
8/50.....	1st - 1949 A	50	260	182.9	1.6632	1.7023
8/51.....	2nd - 1949 B	25	285	199.9	1.8902	1.7120
2/52.....	3rd - 1949 C	25	310	215.9	1.7260	1.7130
2/53.....	1st - 1951 D	100	410	305.6	2.4159	1.9657
1/54.....	2nd - 1951 E	50	460	344.3	1.9329	1.9549
2/55.....	1st - 1954 F	60	520	389.3	2.0298	1.9664
12/55.....	2nd - 1954 G	30	550	410.7	2.1372	1.9747
6/56.....	3rd - 1954 H	50	600	452.1	2.2956	2.0155
10/56.....	4th - 1954 J	35	635	478.3	2.7957	2.0864
2/57.....	1st - 1956 K	50	685	528.4	3.3004	2.2309
6/57.....	2nd - 1956 L	50	735	567.2	3.4258	2.3554
8/57.....	3rd - 1956 M	50	785	607.1	3.5790	2.4760
11/57.....	4th - 1956 N	50	835	657.1	3.6504	2.5889
2/58.....	5th - 1956 P	100	935	744.0	3.07227	2.6859
5/58.....	6th - 1956 Q	50	985	794.0	2.96169	2.7114
7/58.....	7th - 1956 R	100	1,085	878.3	3.2276	2.7884
3/59.....	8th - 1956 S	50	1,135	915.0	3.5544	2.8544
7/59.....	1st - 1958 U	100	1,235	1,011.0	3.9446	3.0064
1/60.....	2nd - 1958 W	50	1,285	1,040.9	4.0191	3.0783
3/60.....	3rd - 1958 X	50	1,335	1,077.5	3.952	3.1373
6/60.....	4th - 1958 Y	50	1,385	1,120.9	3.9534	3.1899

SOURCES: *Statements of Veteran's Welfare Bonds* (State Printing Office, Calif., 1941); *Statement of Bonded Debt of the State of California*, Treasury of the State of California, A. Ronald Button, State Treasurer, June 30, 1958; and Division of Farm and Home Purchases, Department of Veteran Affairs, Sacramento, California, 1960.

# APPENDIX G

TABLE G-1

STATEMENT OF CAL-VET INCOME, EXPENSE, RESERVE, AND SURPLUS, 1921-1960\*

	Fiscal Years									
	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29		
<i>Operating Incomes</i>										
Contract interest.....		\$ 17,773	\$ 83,818	\$ 222,099	\$ 424,069	\$ 520,819	\$ 909,652	\$1,309,754		
Fees.....		8,228								
State appropriations....	\$21,443									
<i>Operating Expenses</i>										
Operations expense.....	21,443	33,125	50,322	70,603	73,048	85,019	127,414	117,867		
Bond interest.....				208,340	353,410	426,390	628,480	1,067,140		
<i>Resale of Properties†.....</i>										
<i>Operating Profit or Loss†.</i>		-7,124	33,496	-56,843	-2,388	9,409	153,758	124,747		
<i>Other</i>										
Income.....		279	9,071	92,564	35,478	43,606	77,845	50,536		
Expense†.....										
<i>Total Profit or Loss†.....</i>		-6,845	42,567	35,722	33,090	53,015	231,602	175,283		
(Fiscal year)										
<i>Operational Surplus†.....</i>		-6,845	35,723	71,444	104,534	157,549	389,152	564,435		
(To date)										
<i>Reserves</i>										
Load charge.....		28,725	114,719	326,962	521,488	694,037	1,254,148	1,695,407		
Unamortized bond premium.....			207	54,641	67,623	201,295	244,293	255,042		
Disaster loss.....										
<i>Total Surplus (to date)....</i>		21,880	150,648	453,047	693,645	1,052,881	1,887,592	2,514,885		

\* See footnotes at end of table.

TABLE G-1 (continued)

	Fiscal Years							
	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37
<i>Operating Incomes</i>								
Contract interest.....	\$1,519,544	\$1,579,097	\$2,130,111	\$2,387,789	\$2,343,134	\$2,298,115	\$2,321,846	\$2,815,048
Fees.....								
State appropriations...								
<i>Operating Expenses</i>								
Operations expense.....	102,348	140,117	194,793	199,442	176,885	197,447	366,135	384,015
Bond interest.....	1,204,305	1,797,903	1,746,375	1,949,264	1,894,684	1,845,766	1,967,586	2,170,180
<i>Resale of Properties†.....</i>		+5,011	-24,773	+8,397	+5,874	+3,461	-4,198	-397,964
<i>Operating Profit or Loss†.</i>	212,891	-353,912	164,260	247,480	277,440	258,363	-16,073	-137,112
<i>Other</i>								
Income.....	16,824	100,817	118,912	79,652	69,316	144,295	163,343	222,600
Expense†.....				53,872	+40,497	7,404	27,353	28,372
<i>Total Profit or Loss†.....</i> (Fiscal year)	229,716	-253,095	283,172	273,260	387,253	395,254	119,917	57,116
<i>Operational Surplus.....</i> (To date)	794,150	566,460 <sup>1</sup>	849,632	1,122,892	1,510,145	1,905,399	2,025,316	2,082,431
<i>Reserves</i>								
Load charge.....	1,847,714	2,098,986	2,751,105	2,896,304	2,898,651	2,898,712	3,316,357	3,968,427
Unamortized bond premium.....	255,042	535,558	556,101	505,109	456,683	469,361	608,019	666,331
Disaster loss.....								
<i>Total Surplus (to date)....</i>	2,896,907	3,201,004	4,156,838	4,524,304	4,865,480	5,273,471	5,949,692	6,717,189

# APPENDIX G (continued)

TABLE G-1 (continued)

	Fiscal Years							
	1937-38	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45
<i>Operating Incomes</i>								
Contract interest.....	\$3,085,753	\$3,057,996	\$2,934,454	\$2,788,227	\$2,595,856	\$2,292,126	\$1,956,847	\$1,636,662
Fees.....				2,563	3,043	2,825	600	35,586
State appropriations.....								
<i>Operating Expenses</i>								
Operations expense.....	385,830	379,663	415,567	378,725	335,289	265,809	210,698	233,137
Bond interest.....	2,264,332	2,204,686	2,084,811	1,982,776	1,761,385	1,588,004	1,412,001	1,234,798
<i>Resale of Properties</i> †.....	-420,248	-244,822	-116,492	-192,832	-179,270	-69,692	-22,499	+176
<i>Operating Profit or Loss</i> ...	15,343	228,825	317,585	236,457	322,955	371,448	319,065	204,489
<i>Other</i>								
Income.....	189,851	223,544	201,724	340,216	186,953	179,425	604,473	232,876
Expense†.....	16,184	12,408	+2,743				594	2,487
<i>Total Profit or Loss</i> .....	189,009	439,961	532,052	576,673	509,908	550,872	922,944	434,878
(Fiscal year)								
<i>Operational Surplus</i> .....								
(To date)	2,271,441	2,747,427 <sup>2</sup>	3,279,478	3,856,152	4,366,060	4,916,932	5,749,620 <sup>3</sup>	6,184,499
<i>Reserves</i>								
Load charge.....	4,305,020	4,356,191	4,440,132	4,475,207	4,479,499	4,475,329	4,482,265	4,503,019
Unamortized bond premium.....	699,339	735,475	635,762	531,618	442,237	361,360	289,034	225,314
Disaster loss.....								
<i>Total Surplus (to date)</i> ...	7,275,800	7,839,093	8,355,373	8,862,977	9,287,795	9,753,621	10,520,920	10,912,831

TABLE G-1 (continued)

	Fiscal Years							
	1945-46	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53
<i>Operating Incomes</i>								
Contract interest.....	\$1,307,276	\$1,492,435	\$1,658,468	\$2,123,102	\$3,135,388	\$4,612,562	\$5,835,085	\$7,311,906
Fees.....		62,960	43,654	72,776	231,237	264,858	229,459	245,693
State appropriations.....	7,599							
<i>Operating Expenses</i>								
Operations expense.....	619,823	869,821	789,089	864,839	1,133,849	1,287,532	1,368,024	1,600,340
Bond interest.....	1,164,634	1,274,363	1,278,589	1,791,426	2,685,237	3,008,254	3,839,808	4,660,979
<i>Resale of Properties</i> †.....		+76	-1,472	+4,689	+2,936	+1,203	+2,291	+94
<i>Operating Profit or Loss</i> †.	-469,582	-588,714	-367,027	-455,698	-449,526	582,837	859,003	1,296,373
<i>Other</i>								
Income.....	234,573	242,934	346,256	566,661	865,049	434,713	311,692	548,825
Expense.....	2,609	1,102	3,145		32		1,160	320,353
<i>Total Profit or Loss</i> .....	-237,618	-346,882	-23,916	110,963	415,491	1,017,550	1,169,535	1,524,845
(Fiscal year)								
<i>Operational Surplus</i> .....	4,612,900 <sup>4</sup>	4,266,147 <sup>5</sup>	4,242,331 <sup>6</sup>	4,353,294	5,781,388 <sup>7</sup>	6,798,938	7,968,473	9,493,317
(To date)								
<i>Reserves</i>								
Load charge.....	4,487,333	1,291,341	1,034,370	1,019,704				
Unamortized bond premium.....	565,795	1,059,415	1,702,786	4,210,639	5,394,549	4,962,909	4,554,964	4,168,009
Disaster loss.....								
<i>Total Surplus (to date)</i> ...	9,666,028	6,616,903	6,979,487	9,583,637	11,175,937	11,761,847	12,523,436	13,661,326

# APPENDIX G (continued)

TABLE G-1 (continued)

	Fiscal Years						
	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60
<i>Operating Incomes</i>							
Contract interest.....	\$ 8,896,795	\$10,408,603	\$11,512,610	\$13,630,235	\$20,298,842	\$27,529,022	\$36,433,780
Fees.....	243,389	198,283	88,895	126,570	119,395	191,879	176,935
State appropriations.....							
<i>Operating Expenses</i>							
Operations expense.....	1,665,447	1,960,611	2,120,915	3,538,949	3,925,057	4,210,563	4,050,785
Bond interest.....	6,375,609	7,220,030	8,147,029	10,711,906	17,281,811	24,405,547	30,369,820
<i>Resale of Properties†.....</i>	<i>+4,956</i>	<i>+4,346</i>	<i>+5,300</i>	<i>+12,547</i>	<i>+14,388</i>	<i>+9,454</i>	<i>+7,449</i>
<i>Operating Profit or Loss†.</i>	<i>1,104,084</i>	<i>1,430,590</i>	<i>1,338,861</i>	<i>-481,503</i>	<i>-774,244</i>	<i>-885,755</i>	<i>2,197,560</i>
<i>Other</i>							
Income.....	687,331	339,226	542,392	1,322,214	1,640,788	2,733,490	2,187,945
Expense.....				1,000,000	87,000		2,718,510 <sup>a</sup>
<i>Total Profit or Loss.....</i>	<i>1,791,415</i>	<i>1,769,816</i>	<i>1,881,253</i>	<i>-159,289</i>	<i>779,545</i>	<i>1,847,736</i>	<i>1,666,996</i>
(Fiscal year)							
<i>Operational Surplus†.....</i>	<i>11,284,732</i>	<i>13,054,548</i>	<i>14,935,801</i>	<i>14,776,512</i>	<i>15,556,057</i>	<i>17,403,793</i>	<i>19,070,789</i>
(To date)							
<i>Reserves</i>							
Load charge.....							
Unamortized bond premium.....	3,693,882	3,374,107	2,942,533	2,592,886	2,255,948	1,926,605	1,644,620
Disaster loss.....				637,037	615,282 <sup>s</sup>		
<i>Total Surplus (to date)....</i>	<i>14,978,614</i>	<i>16,428,655</i>	<i>17,878,335</i>	<i>18,006,435</i>	<i>18,427,287</i>	<i>19,330,398</i>	<i>20,715,409</i>

<sup>1</sup> and <sup>2</sup> and <sup>3</sup> \$25,405.09, \$36,024.97, \$90,255.73 respectively, represent property and equipment amounts transferred from operating expense to surplus; <sup>4</sup> \$1,333,980.97 transferred from surplus to reserve for refund of load charge; <sup>5</sup> and <sup>6</sup> adjustments of \$128.34 and \$100.00 respectively, in surplus account, not identified; <sup>7</sup> \$1,012,602.38 transferred from reserve for load charge back to surplus after all refunds had been

made; <sup>8</sup> \$615,282.09 disaster fund returned to surplus; <sup>9</sup> liquidation of Veterans Affairs Building Fund claim against the State.  
Source: Division of Farm and Home Purchases, Department of Veterans Affairs, Sacramento, California, 1960.  
† + = Gain; - = Loss or Deficit

**APPENDIX H**  
**Tables of Bond Financing Costs**

TABLE H-1

CAL-VET ANNUAL BOND REDEMPTION AND INTEREST PAYMENTS, 1925-1960

Fiscal Year <sup>1</sup>	Bonds Redeemed	Bond Interest	Total
1925.....	\$ 202,000	\$ 208,340	\$ 410,340
1926.....	217,000	353,410	570,410
1927.....	457,000	426,390	883,390
1928.....	349,000	628,480	977,480
1929.....	363,000	1,067,140	1,430,140
1930.....	383,000	1,204,305	1,587,305
1931.....	492,000	1,187,260	1,679,260
1932.....	1,141,000	1,517,048	2,658,048
1933.....	1,269,000	1,949,253	3,218,253
1934.....	1,302,000	1,917,780	3,219,780
1935.....	1,648,000	1,862,350	3,510,350
1936.....	1,819,000	1,892,548	3,711,548
1937.....	2,584,000	2,099,900	4,683,900
1938.....	3,461,000	2,239,425	5,700,425
1939.....	4,582,000	2,237,960	6,819,960
1940.....	4,420,000	2,151,233	6,571,233
1941.....	4,370,000	1,991,820	6,361,820
1942.....	4,676,000	1,832,873	6,508,873
1943.....	4,782,000	1,661,303	6,443,303
1944.....	4,778,000	1,485,385	6,263,385
1945.....	4,830,000	1,309,263	6,139,263
1946.....	4,565,000	1,224,300	5,789,300
1947.....	5,648,000	1,308,503	6,956,503
1948.....	5,392,000	1,315,810	6,707,810
1949.....	6,296,000	1,617,840	7,913,840
1950.....	7,119,000	2,313,280	9,432,280
1951.....	8,188,000	3,421,603	11,609,603
1952.....	8,718,000	4,005,548	12,723,548
1953.....	10,325,000	4,531,440	14,856,440
1954.....	11,329,000	6,618,640	17,947,640
1955.....	15,030,000	7,211,738	22,241,738
1956.....	17,135,000	8,459,431	25,594,431
1957.....	19,910,000	9,823,013	29,733,013
1958.....	23,210,000	15,932,745	39,142,745
1959.....	33,010,000	23,933,467	56,943,467
1960.....	40,110,000	28,842,015	68,952,015
Total.....	\$264,110,000	\$151,782,839	\$415,892,839

<sup>1</sup> Fiscal year ends June 30.

Source: State Controller, State of California, Sacramento, California.

## APPENDIX H (Continued)

TABLE H-2

PROJECTION OF ESTIMATED RECEIPTS AND DISBURSEMENTS FOR THE PERIOD FROM  
JULY 1, 1960 TO JUNE 30, 1986

Year Ending June 30	Estimated Receipts from Contracts and Interest on Investments	Estimated Disbursements for Debt Service and Other Expenditures	Net Current Assets at End of Year
	(thousands of dollars)		
1960.....	\$ 84,280	\$ 83,396	\$ 79,900
1961.....	75,661	85,848	80,784
1962.....	75,443	85,358	70,597
1963.....	75,205	84,880	60,682
1964.....	74,934	84,288	51,007
1965.....	74,654	83,719	41,653
1966.....	74,313	81,688	32,588
1967.....	74,024	81,113	25,213
1968.....	73,747	79,700	18,124
1969.....			12,171
1970.....	73,427	77,774	7,824
1971.....	73,003	76,014	4,813
1972.....	72,403	74,378	2,838
1973.....	71,469	71,256	3,051
1974.....	70,203	68,842	4,412
1975.....	68,658	62,991	10,079
1976.....	66,962	59,786	17,255
1977.....	65,106	56,388	25,973
1978.....	63,151	51,020	38,104
1979.....	61,227	35,733	63,598
1980.....	59,501	35,247	87,852
1981.....	57,338	35,785	109,405
1982.....	54,062	35,301	128,166
1983.....	48,531	34,892	141,805
1984.....	40,749	34,041	148,513
1985.....	31,381	18,710	161,184
1986.....	21,725	9,548	173,361
	<u>\$1,681,157</u>	<u>\$1,587,696</u>	
Contract principal.....	\$1,072,575		
Interest:			
On contracts.....	565,760		
On investments.....	42,822		
	<u>\$1,681,157</u>		
Debt service.....		\$1,528,542	
Operating expenditures.....		36,433	
Fire insurance premiums.....		22,721	
		<u>\$1,587,696</u>	

SOURCE: Price Waterhouse & Co., *Report upon Examination of Statement of Estimated Receipts and Disbursements for the Period July 1, 1960 to June 30, 1986*. Report submitted to Division of Farm & Home Purchases of the Department of Veterans Affairs, State of California, September 1, 1960.

## APPENDIX H (Continued)

TABLE H-3

CAL-VET ANNUAL DEBT SERVICE REQUIREMENTS 1961-86, AS OF JUNE 30, 1960

Fiscal Year <sup>1</sup>	Bonds	Interest	Total
	(thousands of dollars)		
1961.....	\$ 45,030	\$ 33,881	\$ 78,911
1962.....	49,930	33,169	83,099
1963.....	51,080	31,533	82,613
1964.....	52,230	29,912	82,142
1965.....	53,280	28,279	81,559
1966.....	54,180	26,649	80,829
1967.....	53,980	25,003	78,983
1968.....	55,080	23,341	78,421
1969.....	55,300	21,723	77,023
1970.....	55,000	20,116	75,116
1971.....	54,600	18,610	73,210
1972.....	54,700	17,083	71,783
1973.....	53,150	15,569	68,719
1974.....	52,350	14,030	66,380
1975.....	48,100	12,518	60,618
1976.....	46,300	11,040	57,340
1977.....	44,600	9,620	54,220
1978.....	40,800	8,164	48,964
1979.....	26,900	6,893	33,793
1980.....	27,500	5,931	33,431
1981.....	29,000	4,936	33,936
1982.....	29,900	3,895	33,795
1983.....	30,800	2,819	33,619
1984.....	31,300	1,737	33,037
1985.....	17,100	911	18,011
1986.....	8,700	290	8,990
Total.....	\$1,120,890	\$407,652	\$1,528,542

<sup>1</sup> Fiscal year ends June 30.

Source: Division of Farm and Home Purchases, Department of Veteran Affairs, Sacramento, California.

## APPENDIX I

TABLE I-1

HISTORY OF VOTES FOR AND AGAINST CALIFORNIA VETERANS BOND ACTS, 1921-1960

Bond Act	Election Date	Amount of Bond Issue	"Yes" Votes	"No" Votes	Percentage of "Yes" to Total Votes	Ratio in Favor
1921.....	11/7/22	\$ 10,000,000	479,556	220,694	68	2.17 to 1
1925.....	11/2/26	20,000,000	705,398	219,230	76	3.22 to 1
1929.....	11/4/30	20,000,000	835,579	265,682	76	3.15 to 1
1933.....	11/6/34	30,000,000	1,023,496	659,818	61	1.55 to 1
1943.....	11/7/44	30,000,000	2,385,571	333,892	88	7.14 to 1
1946.....	11/5/46	100,000,000	1,818,323	467,364	80	3.89 to 1
1949.....	6/6/50	100,000,000	1,664,445	646,952	72	2.57 to 1
1951.....	11/4/52	150,000,000	3,825,825	637,765	86	6.00 to 1
1954.....	11/2/54	175,000,000	2,560,629	664,000	79	3.86 to 1
1956.....	11/6/56	500,000,000	3,657,829	890,322	80	4.11 to 1
1958.....	11/4/58	300,000,000	3,133,313	1,103,800	74	2.84 to 1
1960.....	6/7/60	400,000,000	2,254,410	1,217,808	65	1.85 to 1
		\$1,835,000,000				

SOURCE: Secretary of State, State of California, Sacramento, California.

**APPENDIX J on next page**

# APPENDIX J

TABLE J-1

AMOUNTS, RATES, MATURITIES, AND YIELDS OF A SYNDICATE'S OFFERING OF CAL-VET AND STATE CONSTRUCTION BONDS, MARCH 12, 1959

State Construction Program Bonds, Act of 1955, Series B Dated: March 1, 1959 Due: December 1, 1960-84, incl.					Veterans' Bonds, Act of 1956, Series S Dated: April 1, 1959 Due: October 1, 1960-84, incl.				
Amount (dollars)	Coupon Rate (percent)	Due (year)	Yield <sup>1</sup> (percent)	Amount (dollars)	Coupon Rate (percent)	Due (year)	Yield <sup>1</sup> (percent)		
\$ 1,600,000	5	1960	1.90	\$ 1,300,000	5	1960	1.90		
1,600,000	5	1961	2.20	1,300,000	5	1961	2.20		
1,600,000	5	1962	2.45	1,300,000	5	1962	2.45		
1,600,000	5	1963	2.70	1,500,000	5	1963	2.70		
1,600,000	5	1964	2.80	1,500,000	5	1964	2.80		
1,800,000	5	1965	2.85	1,500,000	5	1965	2.85		
1,800,000	3¾	1966	2.90	1,600,000	5	1966	2.90		
1,800,000	3¼	1967	3.00	1,600,000	4	1967	3.00		
1,800,000	3¼	1968	3.10	1,600,000	3¼	1968	3.10		
1,800,000	3¼	1969	3.20	1,700,000	3¼	1969	3.20		
2,000,000	3¼	1970	100.	1,700,000	3¼	1970	100.		
2,000,000	3¼	1971	100.	1,700,000	3¼	1971	100.		
2,000,000	3¼	1972	3.30	2,000,000	3¼	1972	3.30		
2,000,000	3¼	1973	3.35	2,000,000	3¼	1973	3.35		

2,200,000	3½	1975	100.	2,300,000	3½	1975	100.
2,200,000	3½	1976	100.	2,300,000	3½	1976	100.
2,200,000	3½	1977	100.	2,300,000	3½	1977	100.
2,200,000	3½	1978	100.	2,500,000	3½	1978	100.
2,200,000	3½	1979	3.55	2,500,000	3½	1979	3.55
2,400,000	3½	1980 <sup>2</sup>	3.55	2,500,000	3½	1980 <sup>3</sup>	3.55
2,400,000	3½	1981 <sup>2</sup>	3.60	2,800,000	3½	1981 <sup>3</sup>	3.60
2,400,000	3½	1982 <sup>2</sup>	3.60	2,800,000	3½	1982 <sup>3</sup>	3.60
2,400,000	3½	1983 <sup>2</sup>	3.60	2,800,000	3½	1983 <sup>3</sup>	3.60
2,400,000	3½	1984 <sup>2</sup>	3.60	2,900,000	3½	1984 <sup>3</sup>	3.60
\$50,000,000				\$50,000,000			

### TAX GAIN, AMORTIZATION OF PREMIUM

These bonds will be initially issued by the State of California at not less than their par value, and a taxable gain may accrue on bonds purchased at a discount. Investors are required under existing regulations to amortize any premium paid thereon.

### LEGAL OPINION

These bonds are offered when, as and if issued and received by the underwriters listed below as well as other underwriters not shown whose names will be furnished on request, and subject to approval of legality by The Honorable Stanley Mosk, Attorney General of the State of California, and by Messrs. Orrick, Dahlquist, Herrington & Sutcliffe, Attorneys, San Francisco, California.

<sup>1</sup> Yield to maturity; accrued interest to be added.

<sup>2</sup> Bonds maturing 1980-84, incl., subject to call at par, plus accrued interest, on and after December 1, 1979, as described herein.

<sup>3</sup> Bonds maturing 1980-84, incl., subject to call at par, plus accrued interest, on and after October 1, 1979, as described herein.  
Source: *The Wall Street Journal*, March 13, 1959, p. 15.

# APPENDIX K

TABLE K-1

THE AMOUNTS OF FHA, VA, CAL-VET, CONVENTIONAL AND OTHER HOME LOANS IN CALIFORNIA,  
AND AS PERCENTAGES OF RECORDED NONFARM HOME MORTGAGES OF \$20,000 OR LESS, 1950-59

Year	Recorded Nonfarm Mortgages of \$20,000 or Less <sup>1</sup>		Federal Housing Administration <sup>2</sup>		Veterans Administration <sup>3</sup>		Cal-Vet Home Loans		Conventional and Other <sup>4</sup>	
	(\$000)	(percent)	(\$000)	(percent)	(\$000)	(percent)	(\$000)	(percent)	(\$000)	(percent)
1950.....	2,454,276	100	385,884	15.7	253,278	10.3	62,311	2.5	1,752,803	71.5
1951.....	2,509,026	100	285,502	11.4	703,374	28.0	53,713	2.1	1,466,437	58.4
1952.....	2,702,253	100	299,295	11.1	378,416	14.0	69,196	2.6	1,955,346	72.3
1953.....	3,080,132	100	391,710	12.7	401,047	13.0	74,785	2.4	2,212,590	71.8
1954.....	3,514,750	100	300,879	8.6	493,666	14.0	78,333	2.2	2,641,872	75.2
1955.....	4,845,328	100	481,618	9.9	1,297,386	26.8	69,319	1.4	2,997,005	61.8
1956.....	5,047,393	100	513,682	10.2	1,004,179	19.9	95,642	1.9	3,433,890	68.0
1957.....	4,744,263	100	294,779	6.2	664,233	14.0	195,276	4.1	3,589,975	75.7
1958.....	5,258,154	100	499,110	9.5	311,108	5.9	212,800	4.0	4,235,136	80.6
1959.....	6,866,833	100	958,026	13.9	476,375	6.9	254,321	3.7	5,178,111	75.5

<sup>1</sup> Includes Cal-Vet home loans.

<sup>2</sup> FHA insured new- and existing-home mortgages.

<sup>3</sup> Guaranteed and direct loans.

<sup>4</sup> Includes property improvement loans, and realty-secured loans for consumption and business purposes in addition to the much larger volume of conventional home loans.

Sources: Nonfarm mortgage data from Federal Savings and Loan Insurance

Corp., Federal Home Loan Bank Board, Washington, D.C.; Veterans Administration loans from Loan Guaranty Service, Department of Veterans Benefits, Veterans Administration, Washington, D.C.; FHA insured home loans, Division of Research and Statistics, Federal Housing Administration, Housing and Home Finance Agency, Washington, D.C.; and Cal-Vet loans from Division of Farm and Home Loans, Department of Veterans Affairs, Sacramento, Calif.

## APPENDIX L

## Tables of VA Home Loans in California

TABLE L-1

NUMBER AND AMOUNT OF PRIMARY HOME LOANS GUARANTEED BY VA IN CALIFORNIA,  
BY NEW AND EXISTING HOMES, 1945-1959

Year	New Homes		Existing Homes	
	Number	Amount (\$000)	Number	Amount (\$000)
1945.....	110	\$ 592	90	\$ 338
1946.....	7,350	55,746	24,750	185,000
1947.....	38,850	326,697	35,450	278,977
1948.....	20,025	174,068	11,475	89,003
1949.....	4,500	41,120	600	5,181
1950.....	27,100	227,701	2,800	25,421
1951.....	59,180	660,849	4,320	41,525
1952.....	35,850	367,774	850	8,344
1953.....	36,000	389,863	600	6,600
1954.....	38,390	446,770	3,610	43,172
1955.....	87,240	1,081,131	18,060	214,044
1956.....	64,220	859,946	11,980	143,549
1957.....	43,300	621,150	3,300	40,646
1958.....	18,700	292,900	1,300	16,226
1959.....	28,900	442,000	2,400	30,000
Total.....	509,715	\$5,988,307	121,585	\$1,128,026

SOURCE: Loan Guaranty Service, Department of Veterans Benefits, Veterans Administration, Washington, D. C.

TABLE L-2

NUMBER AND AMOUNT OF VA DIRECT HOME LOANS CLOSED IN CALIFORNIA, 1950-59

Year	Number	Amount (\$000)
1950-51.....	235	1,756
1952.....	260	2,298
1953.....	505	4,584
1954.....	405	3,724
1955.....	245	2,211
1956.....	80	684
1957.....	265	2,437
1958.....	210	1,982
1959.....	400	4,375

SOURCE: Loan Guaranty Service, Department of Veterans Affairs, Veterans Administration, Washington, D. C.

**APPENDIX M**  
**Tables of Personal and Property Characteristics of Cal-Vet Loans**

TABLE M-1  
PERSONAL AND PROPERTY CHARACTERISTICS OF CAL-VET HOME LOANS, BY AGE OF VETERAN, 1959<sup>1</sup>

Age of Veteran (years)	Contracts in Sample (number)	Age of Veteran (years)	Dependents (number)	Monthly			Age of House (years)	Size of House (square feet)	Number of			Appraised		
				Net Income	Other Income	Total Income			Rooms	Bed-rooms	Bath-rooms	Lot Value	Improvement Value	Total Value
(Averages)														
Under 25. . . . .	21	21.4	2.1	\$342	\$108	\$450	7.2	1,105	5.0	2.6	1.18	\$3,131	\$ 9,895	\$13,026
26-30. . . . .	128	27.9	2.6	402	128	530	5.8	1,223	5.5	2.9	1.44	3,186	10,971	14,157
31-35. . . . .	156	32.7	3.1	447	138	585	6.1	1,329	5.7	2.9	1.58	3,600	12,384	15,985
36-40. . . . .	127	37.7	3.0	442	176	618	4.7	1,393	5.9	3.0	1.60	3,674	13,451	17,124
41-45. . . . .	66	42.6	3.0	468	157	625	6.6	1,330	5.5	2.8	1.55	3,555	12,154	15,708
46-50. . . . .	28	47.6	2.6	420	166	586	3.6	1,258	5.7	2.9	1.69	3,653	12,786	16,439
51 plus. . . . .	13	59.5	1.6	305	276	581	6.2	1,284	5.4	2.9	1.44	3,381	11,780	15,165
Total sample	539	34.9	2.85	\$429	\$151	\$580	5.7	1,305	5.7	2.9	1.50	\$3,492	\$12,181	\$15,673

<sup>1</sup> Based on a sample of contracts written during the first six months of 1959.

TABLE M-2  
PERSONAL AND PROPERTY CHARACTERISTICS OF CAL-VET HOME LOANS, BY TOTAL INCOME, 1959<sup>1</sup>

Total Monthly Income	Contracts in Sample (number)	Age of Veteran (years)	Dependents (number)	Monthly			Age of House (years)	Size of House (square feet)	Number of			Appraised		
				Net Income	Other Income	Total Income			Rooms	Bed-rooms	Bath-rooms	Lot Value	Improvement Value	Total Value
(Averages)														
To \$299.....	11	33.5	1.8	\$220	\$ 55	\$275	6.4	1,121	5.4	2.8	1.25	\$3,254	\$10,041	\$13,295
300-399.....	57	33.9	3.1	343	14	357	6.0	1,144	5.3	2.8	1.33	2,547	9,965	12,513
400-499.....	132	33.9	2.9	402	47	449	5.9	1,245	5.5	2.8	1.39	3,217	11,353	14,570
500-599.....	128	35.2	3.0	462	82	544	5.5	1,287	5.7	2.9	1.60	3,513	12,073	15,586
600-699.....	103	35.5	2.9	439	206	645	6.2	1,356	5.7	2.9	1.60	3,632	12,835	16,467
700-799.....	55	35.5	2.3	459	282	741	5.5	1,365	5.8	2.9	1.60	3,921	13,097	17,018
800 plus.....	53	37.1	2.8	501	495	996	4.1	1,553	6.0	3.1	1.70	4,484	15,111	19,595
Total sample	539	34.9	2.85	\$429	\$151	\$580	5.7	1,305	5.7	2.9	1.50	3,492	12,181	15,673

<sup>1</sup> Based on a sample of contracts written during the first six months of 1959.

APPENDIX M (continued)  
TABLE M-3  
PERSONAL AND PROPERTY CHARACTERISTICS OF CAL-VET HOME LOANS, BY DEPENDENTS, 1959<sup>1</sup>

Dependents (number)	Contracts in Sample (number)	Age of Veteran (years)	Depend- ents (number)	Monthly			Age of House (years)	Size of House (square feet)	Number of			Appraised			
				Net Income	Other Income	Total Income			Rooms	Bed- rooms	Bath- rooms	Lot Value	Improve- ment Value	Total Value	
(Averages)															
0.....	7	41.0	0	\$433	\$ 17	\$450	7.6	1,138	5.1	2.5	1.25	\$4,828	\$11,271	\$16,100	
1.....	91	36.5	1	394	218	612	6.2	1,239	5.4	2.7	1.45	3,684	11,801	15,485	
2.....	112	32.9	2	424	156	580	5.8	1,240	5.4	2.8	1.41	3,595	11,677	15,272	
3.....	171	34.8	3	423	153	576	5.5	1,309	5.7	2.9	1.56	3,293	12,236	15,529	
4.....	101	34.9	4	454	112	566	4.9	1,374	5.8	3.0	1.64	3,469	12,762	16,232	
5.....	41	36.0	5	473	105	578	6.8	1,424	6.0	3.2	1.62	3,618	12,771	16,390	
6 plus.....	16	37.4	6.4	445	114	559	4.9	1,432	6.2	3.3	1.82	3,072	12,503	15,575	
Total sample	539	34.9	2.85	\$429	\$151	\$580	5.7	1,305	5.7	2.9	1.50	\$3,492	\$12,181	\$15,673	

<sup>1</sup> Based on a sample of contracts written during the first six months of 1959.

TABLE M-4  
PERSONAL AND PROPERTY CHARACTERISTICS OF CAL-VET HOME LOANS, BY AGE OF HOME, 1959<sup>1</sup>

Age of Home (years)	Contracts in Sample (number)	Age of Veteran (years)	Depend- ents (number)	Monthly			Age of House (years)	Size of House (square feet)	Number of			Appraised		
				Net Income	Other Income	Total Income			Rooms	Bed- rooms	Bath- rooms	Lot Value	Improve- ment Value	Total Value
(Averages)														
0-1.....	246	35.0	2.0	\$441	\$160	\$600	0.9	1,390	5.8	3.1	1.75	\$3,086	\$13,731	\$16,818
2-9.....	179	35.6	2.8	412	148	560	5.4	1,206	5.4	2.8	1.40	3,480	11,223	14,713
10-19.....	80	33.3	2.5	428	134	562	13.2	1,174	5.4	2.5	1.19	4,190	10,215	14,405
20-29.....	16	35.6	2.9	438	162	600	24.4	1,509	6.2	2.6	1.50	5,331	11,300	16,631
30 plus.....	18	35.9	3.3	430	120	550	34.2	1,540	6.6	3.1	1.39	4,347	10,041	14,388
Total sample	539	34.9	2.85	\$429	\$151	\$580	5.7	1,305	5.7	2.9	1.50	\$3,492	\$12,181	\$15,673

<sup>1</sup> Based on a sample of contracts written during the first six months of 1959.

# APPENDIX M (continued)

TABLE M-5

PERSONAL AND PROPERTY CHARACTERISTICS OF CAL-VET HOME LOANS, BY DISTRICTS, 1959<sup>1</sup>

District <sup>2</sup> (number)	Contracts in Sample (number)	Age of Veteran (years)	Depend- ents (number)	Monthly			Age of House (years)	Size of House (square feet)	Number of			Appraised		
				Net Income	Other Income	Total Income			Rooms	Bed- rooms	Bath- rooms	Lot Value	Improve- ment Value	Total Value
(Averages)														
10.....	38	35.4	3.0	\$391	\$157	\$548	2.6	1,387	6.0	3.0	1.6	\$2,592	\$13,609	\$16,201
11.....	11	34.5	2.6	341	351	692	1.5	1,481	5.9	3.1	1.7	1,582	15,127	16,709
12.....	18	35.6	3.1	427	170	597	3.2	1,383	5.8	2.8	1.6	2,250	12,497	14,747
20.....	31	33.0	2.5	420	161	581	5.6	1,201	5.5	2.8	1.3	3,892	10,659	14,551
21.....	26	32.0	2.8	375	213	589	7.6	1,362	5.8	3.1	1.6	2,725	12,040	14,765
22.....	32	35.7	2.6	462	84	546	3.7	1,250	5.4	3.0	1.3	3,207	11,411	14,708
30.....	26	33.0	2.7	458	161	691	9.8	1,205	5.4	2.6	1.3	4,867	10,978	15,845
31.....	8	36.0	2.6	475	28	503	2.0	1,407	6.2	3.0	1.6	3,406	12,750	16,156
32.....	27	35.5	2.7	437	121	558	8.3	1,240	5.6	2.7	1.4	4,868	11,470	16,338
33.....	70	34.0	2.9	451	167	618	8.3	1,340	5.7	2.7	1.5	4,616	12,101	16,717
40.....	59	36.9	3.0	434	107	541	8.4	1,303	5.8	2.9	1.5	3,511	12,293	15,804
41.....	54	35.3	2.6	485	142	627	4.9	1,260	5.7	2.9	1.6	3,898	12,897	16,796
42.....	43	35.0	2.9	422	170	592	4.2	1,346	5.7	3.0	1.7	3,395	12,781	16,177
43.....	14	35.6	2.2	380	187	567	4.6	1,274	5.2	3.0	1.5	2,411	11,957	14,368
50.....	37	34.5	3.1	369	181	550	1.8	1,415	5.5	3.0	1.7	2,140	12,842	14,982
51.....	19	33.9	3.0	374	118	492	4.0	1,272	5.4	3.1	1.4	2,153	10,716	12,868
60.....	26	35.0	3.4	472	110	582	6.2	1,154	5.5	2.8	1.5	3,975	11,037	15,011
Total sample	539	34.9	2.85	\$429	\$151	\$580	5.7	1,305	5.7	2.9	1.5	\$3,492	\$12,181	\$15,673

<sup>1</sup> Based on a sample of contracts written during the first six months of 1959.

<sup>2</sup> For district names see Appendix N, Table N-1.

# APPENDIX N

## TABLE N-1

CAL-VET HOME LOANS: AMOUNTS, PRICES PAID, DEPARTMENT APPRAISALS, MONTHLY  
INSTALLMENT PAYMENTS, AND LOAN PERCENTAGES, BY DISTRICT, 1959<sup>1</sup>

(number)	District (name)	Home Loans		Price Paid by Veteran (average)	Department Appraisal (average)	Monthly Installment Payment (average)	Home Loan Amount to:	
		(number)	(average)				Price Paid by Veteran (percent)	Department Appraisal (percent)
10	Sacramento.....	626	\$12,763	\$15,724	\$15,270	\$71.57	81.2	83.6
11	Redding.....	231	12,360	14,150	14,430	69.50	85.2	85.7
12	Modesto.....	423	12,170	14,820	14,090	68.30	82.1	86.4
20	Long Beach.....	651	12,190	14,970	14,080	68.40	81.5	86.6
21	San Bernardino.....	532	10,660	14,540	14,460	70.30	82.3	86.7
22	Santa Ana.....	510	13,380	16,650	16,420	74.90	83.6	81.5
30	Inglewood.....	539	13,100	18,240	16,460	73.30	71.9	79.6
31	Santa Barbara.....	231	12,790	16,560	15,630	71.50	77.2	81.8
32	Van Nuys.....	656	13,470	17,800	17,040	75.20	75.7	79.0
33	West Covina.....	887	12,900	16,260	15,930	71.90	79.2	80.9
40	Oakland.....	1,065	12,924	17,058	16,204	72.93	75.8	79.8
41	San Francisco.....	1,012	13,620	18,430	16,730	76.70	73.4	81.4
42	San Jose.....	710	13,110	17,180	16,580	73.50	76.3	79.1
43	Santa Rosa.....	445	12,760	17,480	16,230	73.30	73.0	78.6
50	Fresno.....	653	12,330	14,290	14,020	69.20	87.2	87.9
51	Bakersfield.....	393	11,460	13,260	12,990	63.80	86.4	88.2
60	San Diego.....	565	12,960	17,190	15,970	72.60	75.4	81.2
Total.....		10,129	\$12,860	\$16,407	\$15,648	\$72.15	78.4	82.1
Sample.....		539	\$12,890	\$16,278	\$15,612	\$72.31	79.2	82.6

<sup>1</sup> Based on all contracts written during the first six months of 1959.

## APPENDIX O

TABLE O-1

RATIOS OF AVERAGE HOME PRICES AND LOANS TO VETERANS' INCOMES,<sup>1</sup>  
BY DISTRICT, 1959<sup>2</sup>

(number)	(name)	District	Ratio of Price Paid by Veteran to Total Annual Income	Ratio of Home Loan to Total Annual Income
10	Sacramento.....		2.4	1.9
11	Redding.....		1.7	1.5
12	Modesto.....		2.1	1.7
20	Long Beach.....		2.1	1.7
21	San Bernardino.....		2.1	1.5
22	Santa Ana.....		2.5	2.0
30	Inglewood.....		2.5	1.8
31	Santa Barbara.....		2.7	2.1
32	Van Nuys.....		2.7	2.0
33	West Covina.....		2.2	1.7
40	Oakland.....		2.6	2.0
41	San Francisco.....		2.4	1.8
42	San Jose.....		2.4	1.8
43	Santa Rosa.....		2.6	1.9
50	Fresno.....		2.2	1.9
51	Bakersfield.....		2.2	1.9
60	San Diego.....		2.5	1.9
Average.....			2.4	1.8

<sup>1</sup> Average home prices and loans are from all contracts; average total incomes are from the sample.

<sup>2</sup> First six months of 1959.

## APPENDIX P

TABLE P-1

REPAYMENT OF ALL CAL-VET HOME LOANS WRITTEN FROM 1922 THROUGH 1940,  
BY YEARS IN FORCE

Years in Force	Number of Loans Paid Off (percent)	Cumulative Totals (percent)
1 or less.....	3.5	3.5
2.....	4.7	8.2
3.....	5.2	13.4
4.....	4.4	17.8
5.....	4.9	22.7
6.....	5.9	28.6
7.....	6.3	34.9
8.....	5.8	40.7
9.....	5.9	46.6
10.....	6.2	52.8
11.....	5.0	57.8
12.....	4.5	62.3
13.....	4.1	66.4
14.....	4.1	70.5
15.....	5.2	75.7
16.....	3.9	79.6
17.....	3.1	82.7
18.....	3.1	85.8
19.....	3.8	89.6
20.....	5.7	95.3
21.....	2.1	97.4
22.....	.8	98.2
23.....	.3	98.5
24.....	.1	98.6
25.....	1.4	100.0
Total.....	100.0	

SOURCE: Division of Farm and Home Purchases, Department of Veterans Affairs, State of California, Sacramento, California.



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